ABP BONDS UK LIMITED

(Company Number 05885161)

ANNUAL REPORT AND ACCOUNTS 2019

ABP BONDS UK LIMITED

ANNUAL REPORT AND ACCOUNTS 2019

Contents	**Page**

Strategic report

The directors present their strategic report for the year ended 31 December 2019.

Principal activity and strategy

The principal activity and strategy of the company (number 05885161) is to act as a special purpose vehicle established for the purpose of financing the acquisition of Associated British Ports Holdings Limited ("ABPH") by ABP Acquisitions UK Limited ("ABPA"), an intermediate subsidiary undertaking of the company. The group's principal operating subsidiary undertaking is Associated British Ports.

On 22 August 2006 the company issued and listed on The International Stock Exchange (formerly known as the "Channel Islands Securities Exchange") £1,061,585k of unsecured subordinated loan notes ("loan notes"), which were subscribed for by the shareholders of ABP (Jersey) Limited ("ABPJ"), the company's immediate parent undertaking. The proceeds of the loan notes were lent to the company's immediate subsidiary undertaking, ABP SubHoldings UK Limited ("ABPS") on similar terms. PIK notes (on the same terms as, but ranking in priority to, the original loan notes) have been issued as settlement of part of the interest accruing on these loan notes.

In 2010 and 2011 the company received interest payments from ABPS, which were on lent to the company's fellow group undertaking, ABP Mezzanine Holdco UK Limited ("ABPM"), to fund the acquisition of loans from third parties to ABPA. This resulted in the shareholder loans exceeding the amounts due from ABPS. The loan to ABPM was subsequently forgiven by the company in exchange for ABPM forgiving its loan due from ABPA.

In January 2017, pursuant to a process to reduce the amount of shareholder loans due in 2017, the company replaced shareholder loans and the related interest accrued totalling £1.0bn through the issue of £1.0bn of new loan notes with terms identical to the shareholder loan notes they replaced in all respects including the maturity date and the interest rate accruing at 12.0% per annum. The newly issued shareholder loan notes were subsequently novated to the company's immediate parent undertaking, ABPJ, in consideration for an ordinary share issued by the company to ABPJ.

In February 2017, the shareholders of ABPJ agreed with the company to extend the maturity date on the remaining shareholder loans accruing interest at 12.0% per annum and the associated accrued interest thereon from 2017 to 2027. In addition, the interest rate for the shareholder loans was reduced to 9.0% from 12.0% per annum. In all other regards the terms of the loan agreement remained the same.

On 1 December 2018 the shareholder loans were redeemed, cancelled and subsequently delisted from The International Stock Exchange. Preference shares were issued for an equivalent amount to the same shareholder loan holders in the same proportions. These Preference shares are considered financial liabilities and not equity, carry a right to a fixed cumulative preferential dividend at the annual rate of 9.0% of the issue price per Preference share, and are redeemable in 2027. Immediately before the exchange of the shareholder loans for Preference shares, holders of the loans forgave the company £0.1m of accrued and unpaid interest on the loan notes for no consideration. The exchange of the shareholder loans for Preference shares is not a substantial change in terms or substantial modification and therefore no de-recognition of the original instrument and recognition of the new instrument is required. Refer to note 12 for further details.

With effect from 1 December 2018 the shareholders of the company's fellow group undertaking, ABPM, agreed to change the interest rate on the intercompany loan accruing interest at 10.0% per annum and the associated accrued interest thereon from 10.0% per annum to 3.95% per annum plus 6 month sterling LIBOR and to extend the maturity date on the intercompany loan from 16 December 2018 to 15 December 2028. In all other regards the terms of the loan agreements remained the same. On the same day the company agreed to change the interest rate and maturity date on the intercompany receivable from ABPS on equivalent terms.

Strategic report (continued)

The company also has borrowings of £416.0m (2018: £416.0m) due to ABPM. These borrowings are matched by an equivalent receivable from ABPS.

The company has debt owed to ABPJ, which was drawn down in 2006 when ABPH was acquired, and also receives amounts from ABPA in relation to the utilisation of group tax relief.

The loss for the year was £34.8m (2018: £25.7m). The current year loss reflects net finance costs of £24.2m associated with the company's borrowings, amounts payable to ABPA and loans to ABPS and a current tax charge of £10.6m. ABPJ has confirmed that it will continue to finance the company to enable it to meet its liabilities as they fall due.

The primary driver of performance is the ability of the wider group's main trading group, ABPA Holdings Limited ("ABPAH", note 16), to generate cash flows, as indicated by the following:

ABPA Holdings Limited	**2019 £m**	**2018 £m**
Consolidated EBITDA[1]	**315.4**	331.5
Cash generated by operations	**295.1**	314.4

[1] Consolidated EBITDA (earnings before interest, tax, depreciation and amortisation) is calculated in accordance with the definitions set out in the group's credit facilities and after excluding certain items

Position at the end of the year

At 31 December 2019, the company had net assets of £721.1m (2018: net assets of £755.9m), which includes an investment in subsidiary of £1.0bn.

Principal risks and uncertainties

The company has limited risk because it interacts only with fellow group companies and the shareholders of ABPJ as part of the financing structure of the group owned by ABPJ. The nature of the interactions is set out in notes 4, 7, 9, 11 and 14 to the accounts. Within the interactions the principal risks are the timing of interest receipts and payments and repayment of principal at the end of the loan terms. Agreements are structured so that the company should not be exposed to these risks at any time other than ultimately by the ability of the underlying trading group to pay its debts. Further details on financial risk management are set out below and in note 10.

Financial risk management

The company's main financial risks are liquidity, credit and capital risk. Treasury matters for the company are controlled centrally by the group as set out in note 10.

Liquidity risk

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

Credit risk

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

Capital risk

The company keeps its funding structure under review in order to fulfil its principal activity of financing the acquisition and subsequent funding of ABPH, by ABPA, an intermediate subsidiary undertaking of the company.

Strategic report (continued)

The company currently finances its business with Preference shares held by its immediate parent undertaking's shareholders and by intercompany loans from fellow group undertakings. Details of these loan notes can be found in notes 9, 10 and 14.

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

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

Section 172 Statement
The Board recognises the importance of stakeholder engagement in delivering the long-term and sustainable success of the company. When making decisions the directors have regard to the likely long-term impact of those decisions and also their responsibilities and duties to stakeholders relevant to the company's operation. Directors receive training on their duties as part of their induction, which is refreshed on an ongoing basis as necessary.

Important events after the reporting period
Since the balance sheet date the Covid-19 virus has spread around the world and many governments, including that of the UK, have introduced strict measures to limit social contact in order to slow the spread of the virus. The group of companies to which ABP Bonds UK Limited belongs has been impacted by the slowdown of the economy and by reduced trade flows caused by the measures to limit the spread of the virus. As these measures were not in place at the balance sheet date management have concluded that the economic impact of the Covid-19 virus is a non-adjusting post balance sheet event.

The group continues to monitor carefully the fast changing threat from the Covid-19 virus and is liaising with the relevant health authorities and statutory bodies to ensure the group is delivering the most appropriate and effective response. Management are actively managing safe operation of the business to minimize disruption of business operations, in order to minimize the adverse impacts on the group's EBITDA. The group is proactively considering downside scenarios, re-forecasting and stress testing financial results, and monitoring headroom against its loan covenants. Based on currently available information, including consideration of actual results compared to forecast for April and May, the group does not expect the impact of the virus to cause it to default on its covenants or to otherwise threaten the viability of the group.

As described in note 1.3, management have made a number of critical estimates, judgements and assumptions in preparing these accounts. Given the fast moving nature of events and the unprecedented nature of the measures being taken to slow the spread of the virus it is not possible to accurately quantify the financial impact of these measures on the critical estimates, judgements and assumptions. However management consider it unlikely that the Covid-19 virus will adversely impact on the recoverability of the company's financial assets.

By Order of the Board

Maria Wyatt

MM Wyatt
Director
24 July 2020

Directors' report

The directors present their report and the audited accounts of the company (number 05885161) for the year ended 31 December 2019.

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

Dividends
The directors do not recommend the payment of a dividend (2018: £nil).

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

Bull, GSM		(resigned 29 March 2019)
Pedersen, HL		
Wyatt, MM		(appointed 14 March 2019)
Kennedy, SR	(alternate to GSM Bull)	(appointment ceased on 29 March 2019 on resignation of GSM Bull)
Kennedy, SR	(alternate to HL Pedersen)	
Kennedy, SR	(alternate to MM Wyatt)	(appointed 14 March 2019)

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

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

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

- Financial risk management objectives and policies and details of the company's exposure to liquidity, credit and capital risk and other risk disclosures; and
- Important events after the reporting period and an indication of likely future developments in the business.

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

Directors' report (continued)

Audit information

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

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

By Order of the Board

ABP Secretariat Services Limited
Secretary
25 Bedford Street
London, WC2E 9ES
24 July 2020

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

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

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

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

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

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

Opinion

We have audited the financial statements of ABP Bonds UK Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Covid-19

We draw attention to note 1.1 "Going Concern" and note 17 "Events after the reporting period" of the financial statements, which describes the impacts the company is facing as a result of Covid-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Lloyd Brown (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 July 2020

Income statement for the year ended 31 December

	Note	2019 £m	2018 £m
Administrative expenses	2	-	-
Finance costs	4	**(276.1)**	(279.7)
Finance income	4	**251.9**	255.8
Loss before taxation		**(24.2)**	(23.9)
Taxation charge	5	**(10.6)**	(1.8)
Loss for the year		**(34.8)**	(25.7)

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

Statement of comprehensive income for the year ended 31 December

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

Balance sheet as at 31 December

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Investments	6	**1,000.0**	1,000.0
Group receivables	7	**3,267.8**	3,015.9
Deferred tax asset	8	**44.0**	44.0
		4,311.8	4,059.9
Current assets			
Group receivables	7	**2.0**	2.0
Cash and cash equivalents		-	-
		2.0	2.0
Total assets		**4,313.8**	4,061.9
Liabilities			
Current liabilities			
Borrowings	9	**(2.0)**	(2.0)
Group payables	11	**(128.6)**	(110.0)
		(130.6)	(112.0)
Non-current liabilities			
Borrowings	9	**(508.9)**	(484.6)
Preference shares	12	**(2,688.8)**	(2,688.8)
Dividend accrued on Preference shares	12	**(264.4)**	(20.6)
		(3,462.1)	(3,194.0)
Total liabilities		**(3,592.7)**	(3,306.0)
Net assets		**721.1**	755.9
Shareholder's equity			
Share capital	12	**-**	-
Retained earnings		**721.1**	755.9
Total shareholder's equity		**721.1**	755.9

The financial statements were approved by the Board on 24 July 2020 and signed on its behalf by:

Manon Wyatt

MM Wyatt
Director

Statement of cash flows for the year ended 31 December

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash flows from operations	13	-	-
Net cash flow from operating activities		-	-
Change in cash and cash equivalents during the year		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

Details of significant non-cash transactions affecting the company are set out in notes 13 and 14.

Statement of changes in equity for the year ended 31 December

	Share capital £m	Share premium £m	Other reserve £m	Retained earnings/ (accumulated losses) £m	Total £m
At 1 January 2018	-	-	-	781.6	781.6
Loss for the year	-	-	-	(25.7)	(25.7)
At 31 December 2018	-	-	-	**755.9**	**755.9**
Loss for the year	-	-	-	(34.8)	(34.8)
At 31 December 2019	-	-	-	**721.1**	**721.1**

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

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

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

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

The directors have carried out a review, including consideration of appropriate forecasts and sensitivities, which indicates that the company will have adequate resources to continue to trade for the foreseeable future. The primary driver of performance is the ability of the ABPAH group to generate cash flows. For the year ended 31 December 2019 the ABPAH group had consolidated EBITDA, calculated in accordance with the group's credit facilities, as disclosed in the strategic report of £315.4m and cash generated by operations of £295.1m. The group's strategic plan indicates that a strong performance is forecast to continue in the future.

The directors have considered the company's net current liabilities of £128.6m which includes the current accrued interest of £2.0m due to its fellow group undertaking, ABP Mezzanine Holdco UK Limited ("ABPM"). Included within net current liabilities is also an amount due to its intermediate subsidiary undertaking, ABP Acquisitions UK Limited ("ABPA"), of £128.6m, which is repayable on demand. The company's immediate parent undertaking, ABP (Jersey) Limited ("ABPJ"), has confirmed that it will continue to finance the company to enable it to meet its liabilities.

In respect of the wider trading group, the group's business plan was developed before the spread of the Covid19 virus. Management are monitoring the impact of the virus and do not expect it to adversely impact the going concern assumption based on the significant proportion of revenue that is contractually guaranteed. Most of the impact to date from reduced volumes through the ports has been offset by the group's ability to take effective mitigating actions to counter downside scenarios. The group has already instigated certain costs saving and capex reduction initiatives. Management have re-forecast the group's results and have modelled different scenarios including a severe downside scenario where headroom against the leverage covenant becomes limited within the going concern period, before further mitigating actions. If the actual results are significantly worse than forecast, the group has the option of pursuing further mitigating measures that are under its own control to cut costs and preserve cash. These include further reductions in variable staff and other variable costs to match reduced activity, delaying or freezing EBITDA enhancing capex projects and if the downside period persists then reviewing costs for further savings. As a result of the actions already taken to date and further contingency plans to react to a more adverse scenario, management have concluded that the group should generate sufficient cash and EBITDA to continue as a going concern and to avoid breaching its loan covenants.

1. Accounting policies

1.1 Basis of preparation (continued)

Liquidity risk is principally managed by maintaining cash and borrowing facilities at a level that is forecast to provide reasonable headroom in excess of the expected future needs of the group. As at 31 December 2019, the group had access to £365m of committed and undrawn borrowing facilities, which are available for between two and four years.

A further £40m has been drawn against these facilities in 2020 to provide additional liquidity as a buffer against the possible impacts of the Covid-19 virus. Debt maturities are spread over a range of dates, ensuring the group is not exposed to a material refinancing in any one year (see note 1 on going concern and note 10 on financial risk management). In addition, the group has in place £130m of undrawn debt service reserve liquidity facilities to cover annual interest costs. These are renewed annually and are drawn with a final maturity of 2042 if not renewed.

There is no indication that the company will not be able to recover the sum due from its subsidiary undertaking before it has to pay its debts due to the shareholders of its parent undertaking, its fellow group undertaking, ABPM and its intermediate subsidiary undertaking, ABPA.

Given the nature, maturity dates and counterparties of these liabilities (as set out in notes 9, 10, 11, 12 and 14), as well as the wider group's track record of its ability to refinance debt and generate cash flows, notwithstanding the impact of the Covid-19 virus, the directors are confident that the company has the ability to continue to meet its liabilities as they fall due for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Consolidation exemption
These separate financial statements contain information about ABP Bonds UK Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption available under s401 of the Companies Act 2006, from the requirement to prepare and deliver consolidated financial statements, as the results of the group are included in the consolidated financial statements of its immediate parent undertaking, ABP (Jersey) Limited, which are available from 44 Esplanade, St Helier, Jersey, JE4 9WG.

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

1.2 Changes in accounting policies

New standards and amendments adopted
There were no new accounting standards, amendments and improvements effective for the first time for the annual reporting period commencing 1 January 2019 that had a material impact on the company.

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

The directors do not anticipate that the adoption of these new standards, amendments and interpretations will have a material impact on the company's financial statements in the period of initial application. The company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the financial statements

1. **Accounting policies** (continued)

1.3 Critical estimates, judgements and assumptions

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

Estimates
The critical estimates in applying these policies relate to the calculation of Expected Credit Losses relating to group receivables as set out in note 7.

The Company is required to recognise expected credit losses (ECLs) based on unbiased forward-looking information for all group financial assets held at amortised cost. At the reporting date, an impairment allowance reflecting 12 months ECL is required for financial assets that either have not deteriorated significantly in credit quality since initial recognition or have low credit risk. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3), an allowance (or provision) should be recognised for the lifetime ECLs.

The measurement of ECL is calculated using three main components: (i) probability of default (PD) (ii) loss given default (LGD) and (iii) the exposure at default (EAD).

The 12 month and lifetime ECLs are calculated by multiplying the respective PD, LGD and the EAD. The 12 month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument, respectively. Management estimate the PD by performing an analysis of default rates calculated by reputable external credit rating agencies and implied in credit default swap curves. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of priority of repayment at the time it is expected to be realised, the time value of money and counterparty's ability to settle its obligations immediately for financial assets that are repayable on demand. For uncollateralised financial assets, management have assumed standard market recovery rates.

Judgements
In the process of applying the company's accounting policies, the directors have made the following judgement which has the most significant effect on the amounts recognised in the financial statements:

Credit risk of financial assets
The company's main transactions each year, which are controlled in conjunction with the rest of the group, relate to interest accrual, receipt and payment. Ultimate realisation of principal balances depends on the performance of ABPA Holdings Limited's ("ABPAH") underlying trading group and the ability of the UK-wide ports and transport operations to generate cash flows. As such, management considers the overall Group performance to be an adequate indicator of credit quality of each group company. Therefore, when calculating Expected Credit Losses relating to group receivables, as described above, management have made the judgement that the probability of default of each group company is the same as for the group as a whole, given the close interdependencies between each group company.

Notes to the financial statements

1. **Accounting policies** (continued)

1.3 **Critical estimates, judgements and assumptions** (continued)

Judgements (continued)

The other factors that are considered when assessing whether the credit risk of the Group companies has deteriorated include, but are not limited to, the following:

- Evidence of working capital deficiencies or liquidity problems for the Group.
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the Group's ability to meet its debt obligations.
- An actual or expected significant adverse change in the operating results of the Group.
- Significant changes, such as reductions, in financial support from a parent entity or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the group companies' economic incentive to make scheduled contractual payments.
- Changes in the Group's external credit rating.

For the year ended 31 December 2019 the ABPAH group had consolidated EBITDA, calculated in accordance with the group's credit facilities, as disclosed in the strategic report of £315.4m and cash generated by operations of £295.1m. The group's strategic plan indicates that a strong performance is forecast to continue in the future. Further attention is drawn to the company's and group's approach to risk and capital management which is set out in the company's strategic report. Therefore, management have made the judgement that the credit quality of the Group, and the individual group companies, has not significantly deteriorated and group receivables continue to qualify as Stage 1 financial assets for which 12-month ECL has been estimated.

Recoverability of financial assets

Group receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. The company's main transactions each year, which are controlled in conjunction with the rest of the group, relate to interest accrual, receipt and payment. Ultimate realisation of principal balances depends on the performance of ABPA Holdings Limited's ("ABPAH") underlying trading group and the ability of the UK-wide ports and transport operations to generate cash flows. For the year ended 31 December 2019 the ABPAH group had consolidated EBITDA, calculated in accordance with the group's credit facilities, as disclosed in the strategic report of £315.4m and cash generated by operations of £295.1m. The group's strategic plan indicates that a strong performance is forecast to continue in the future. Further attention is drawn to the company's and group's approach to risk and capital management which is set out in the company's strategic report.

Given the stable financial position of the group, the directors have concluded that there has not been a significant increase in credit risk relating to group receivables since initial recognition and consequently Expected Credit Losses relating to group receivables are provided for default events that are possible within the next 12 months.

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

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

Notes to the financial statements

1. **Accounting policies** (continued)

1.4 Significant accounting policies

1.3 **Critical estimates, judgements and assumptions** (continued)

Financial instruments
The company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Group receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses ("ECLs").

At each reporting date, the company performs an impairment analysis for all group receivables to measure the allowance for ECLs. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for default events that are possible within the next 12 months. For credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is calculated for credit losses expected over the remaining life of the exposure, irrespective of the expected timing of the default.

Movements in the provision for expected credit losses of receivables are recorded within administrative expenses.

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;
  a) the company has transferred substantially all the risks and rewards of the asset; or
  b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Group payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

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

A financial liability is derecognised when the obligation is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the company income statement. When the contractual cash flows are renegotiated or modified but do not result in the de-recognition of the financial liability, the difference between the net present value of the modified contractual cash flows discounted at the financial liability's original effective interest rate and the present value of the existing financial liability, is recognised in profit or loss.

Notes to the financial statements

1. **Accounting policies** (continued)

1.4 **Significant accounting policies** (continued)

Share Capital
Ordinary shares are classified as equity.

Preference shares are classified as financial liabilities in non-current liabilities. Preference shares are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method. Dividends on the cumulative Preference shares are recognised in finance costs.

1.5 **Other accounting policies**

Investments
Investments in subsidiaries are stated at cost. The company assesses at each reporting date whether there is any indication that the investment may be impaired.

On forgiveness of amounts due from subsidiary undertaking the company derecognises the carrying value of amounts due from subsidiary undertaking on the balance sheet and recognises an equivalent amount as an additional cost of investments in subsidiaries.

Interest income
Interest income is calculated and recorded using the effective interest method. Interest income is included in finance income in the income statement.

Interest expense
Interest costs are expensed in the period in which they occur and consist of interest that the company incurs in connection with the borrowing of funds. Interest expense is calculated and recorded using the effective interest method.

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

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

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

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

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

Notes to the financial statements

2. Administrative expenses

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

	2019 £000	2018 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**14**	23

3. Directors and employees

The directors of ABP Bonds UK Limited were directors of a number of companies within the ABP (Jersey) Limited ("ABPJ") group. The directors believe that their services to the company are incidental to their role for other group companies and therefore consider that they receive no remuneration in respect of qualifying services to this company (2018: £nil).

The company had no employees during the year (2018: nil).

4. Finance costs/(income)

	2019 £m	2018 £m
Dividends on Preference shares	**243.8**	20.6
Interest on shareholder loans	**-**	204.5
Interest on amounts due to parent undertaking	**0.3**	0.3
Interest on amounts due to group undertakings	**24.0**	46.5
Interest on amounts due to subsidiary undertaking	**7.8**	7.7
Other finance costs	**0.2**	0.1
Finance costs	**276.1**	279.7
Interest on amounts due from subsidiary undertaking	**(251.9)**	(255.8)
Finance income	**(251.9)**	(255.8)
Net finance costs on financial assets and financial liabilities held at amortised cost	**24.2**	23.9

5. Taxation

Analysis of charge for the year	2019 £m	2018 £m
Current tax	**10.6**	2.3
Deferred tax (note 8)	**-**	(0.5)
Taxation	**10.6**	1.8

Current taxation for the current and prior year represents a charge for group relief surrendered by another subsidiary undertaking with the amount being added to amounts due to subsidiary undertaking.

Notes to the financial statements

5. **Taxation** (continued)

The taxation charge for the year and prior year is higher than the standard rate of taxation in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £m	2018 £m
Loss before taxation	**(24.2)**	(23.9)
Loss before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**(4.6)**	(4.5)
Effects of:		
Items not deductible for tax	**15.2**	6.8
Tax in respect of prior years	**-**	(0.5)
Total tax charge for the company	**10.6**	1.8

Effective tax rate	**-43.8%**	-7.5%
Total tax charge for the company	**10.6**	1.8
Effects of permanent differences:		
Related party debt - disregarded	**15.2**	(6.8)
Tax in respect of prior years	**-**	0.5
Total tax charge for the company	**(4.6)**	(4.5)
Tax rate after permanent differences	**19.0%**	19.0%

6. **Investments**

	Interest in subsidiary undertaking	
	2019 **£m**	**2018** **£m**
At 1 January	**1,000.0**	1,000.0
At 31 December	**1,000.0**	1,000.0

The company holds the whole of the ordinary issued share capital of ABP SubHoldings UK Limited ("ABPS"). ABPS is an unlisted, private limited liability, intermediate investment holding company, which is incorporated and domiciled in England and Wales.

ABPS reported a loss for the year ended 31 December 2019 of £1.5m (2018: £1.5m) and had shareholder's equity at 31 December 2019 of £971.8m (2018: shareholder's equity of £973.3m).

7. **Group receivables**

	2019 £m	2018 £m
Non-current		
Amounts due from subsidiary undertaking	**1,138.8**	1,138.8
Accrued interest on amounts due from subsidiary undertaking	**2,129.0**	1,877.1
Total non-current group receivables	**3,267.8**	3,015.9
Current		
Accrued interest on amounts due from subsidiary undertaking	**2.0**	2.0
Total current group receivables	**2.0**	2.0

Notes to the financial statements

7. **Group receivables** (continued)

Amounts due from subsidiary undertaking represents loans to the company's immediate, wholly owned subsidiary undertaking, ABPS, and interest accrued thereon. ABPS has equivalent receivables from its immediate subsidiary undertaking, ABPA Holdings Limited, which has borrowing agreements that restrict the amounts it can pay in cash in respect of interest due on its intra-group indebtedness. Amounts have been included in current and non-current based on the expected realisation of the asset.

With effect from 1 December 2018 the company agreed to change the interest rate on the intercompany loan due from ABP SubHoldings UK Limited ("ABPS") accruing interest at 10.0% per annum and the associated accrued interest thereon from 10.0% per annum to 3.95% per annum plus 6 month sterling LIBOR and to extend the maturity date on the intercompany loan from 16 December 2018 to 15 December 2028. Consequently, on 1 December 2018, the amounts due from subsidiary undertaking due in 2018 were de-recognised and the new amounts due from subsidiary undertaking due in 2028 were recognised at fair value with £nil recorded in profit or loss. In all other regards the terms of the loan agreements remained the same.

Further details of the amounts due from subsidiary undertaking are also disclosed in note 14.

Amounts due from subsidiary undertaking are not overdue for repayment and are not considered to be impaired. Management has undertaken an impairment analysis in order to estimate the Expected Credit Losses (ECLs) that are possible from default events over the next twelve months. Management have concluded that the ECLs are immaterial and consequently no allowance for impairment has been recognised.

Disclosure of the financial risks related to these financial instruments is set out in note 10.

The company's receivables are denominated in sterling.

8. **Deferred tax**

The UK corporation tax rate change from 19% to 17% (effective 1 April 2020) was enacted 15 September 2016. On 11 March 2020 the Chancellor of the Exchequer announced that the UK corporation rate change would no longer go ahead. However, as this announcement took place after the balance sheet date, the deferred tax balances are remeasured at 19% or 17% as appropriate for the period in which they are expected to crystalise.

The movement on the company's deferred tax is shown below:

	2018 £m	Adjustments in respect of previous periods credited to income statement £m	Charged to income statement £m	2019 £m
Carried forward non-trading losses	44.0	-	-	44.0
Deferred tax asset	**44.0**	**-**	**-**	**44.0**

Notes to the financial statements

8. Deferred tax (continued)

	2017	Adjustments in respect of previous periods charged to income statement	Charged to income statement	2018
	£m	£m	£m	£m
Carried forward non-trading losses	43.5	0.5	-	44.0
Deferred tax asset	**43.5**	**0.5**	**-**	**44.0**

The company has a deferred income tax asset of £44.0m (2018: £44.0m) that can be carried forward against future taxable income generated through the sale of investment property by other group entities or as a result of the company taking certain steps such that it has net taxable interest income.

The company had no other losses (2018: £nil) that can be carried forward against future taxable income.

9. Borrowings

	2019	2018
	£m	£m
Current		
Interest on amounts due to group undertaking	**2.0**	2.0
Total current borrowings	**2.0**	2.0
Non-current		
Amounts due to group undertaking	**416.0**	416.0
Interest on amounts due to group undertaking	**90.1**	66.1
Amounts due to parent undertaking	**0.6**	0.6
Interest on amounts due to parent undertaking	**2.2**	1.9
Total non-current borrowings	**508.9**	484.6

On 1 December 2018 the company issued £2,688.8m of Preference shares to the shareholder loan note holders in exchange for, and in the same proportions to, their shareholder loan notes and accrued and unpaid interest, totalling £2,688.8m. The shareholder loan notes were deemed to be redeemed, immediately cancelled and were subsequently delisted from The International Stock Exchange. The newly issued Preference shares are considered financial liabilities and not equity, carry a right to a fixed cumulative preferential dividend at the annual rate of 9.0% of the issue price per Preference share, and are redeemable in 2027. Immediately before the exchange of the shareholder loans for Preference shares, holders of the loans forgave the company £0.1m of accrued and unpaid interest on the loan notes for no consideration. The exchange of the shareholder loans for Preference shares is not a substantial change in terms or substantial modification and therefore no derecognition of the original instrument and recognition of the new instrument is required. Refer to note 12 for further details.

9. **Borrowings** (continued)

Amounts due to group undertaking represent a loan with the company's fellow group undertaking, ABP Mezzanine Holdco UK Limited. Interest on the loan is accrued and payable semi-annually. The amounts of interest settled is dependent on the amounts of interest income the company receives from its immediate subsidiary undertaking, ABP SubHoldings UK Limited ("ABPS"), which in turn is dependent on the lending agreements of that company's immediate subsidiary undertaking, ABPA Holdings Limited, and its immediate subsidiary undertakings, ABP Finance PLC and ABP Acquisitions UK Limited. Should insufficient funds be available, under the agreement the company is permitted to defer payment until a subsequent interest payment date or the final redemption date. Any repayment of interest or capital from ABPS will trigger a mandatory repayment to the lender. Interest charged in 2019 of £24.0m (2018: £nil) was deferred in line with the agreement. The total outstanding interest accrued as at 31 December 2019 was £92.1m (2018: £68.1m).

With effect from 1 December 2018 the company's fellow group undertaking, ABP Mezzanine Holdco UK Limited ("ABPM"), agreed to change the interest rate on the intercompany loan to the company accruing interest at 10.0% per annum and the associated accrued interest thereon from 10.0% per annum to 3.95% per annum plus 6 month sterling LIBOR and to extend the maturity date on the intercompany loan from 16 December 2018 to 15 December 2028. Consequently, on 1 December 2018, the amounts due to group undertaking due in 2018 were de-recognised and the new amounts due to group undertaking due in 2028 were recognised at fair value with £nil recorded in profit or loss. In all other regards the terms of the loan agreements remained the same.

Amounts due to parent undertaking relates to a loan with the company's immediate and ultimate parent undertaking, ABP (Jersey) Limited. Interest on the loan can be paid in cash or accrued until maturity of the facility.

Disclosure of the financial risks related to these financial instruments is set out in note 10. More detail on the company's related party borrowings is set out in note 14.

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

10. **Financial instruments**

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

Fair value of financial instruments

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

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

	2019		2018	
	Book value £m	**Fair value £m**	**Book value £m**	**Fair value £m**
Financial liabilities				
At amortised cost				
Amounts due to parent undertaking	**(2.8)**	**(3.2)**	(2.5)	(2.9)

The terms of the amounts due to parent undertaking are set out in note 14.

Notes to the financial statements

10. **Financial instruments** (continued)

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

- The fair value of Preference shares and dividends accrued on Preference shares has been based on a cash flow projection with reference to observed market returns and accords to Level 2 in the fair value hierarchy. As the fixed rate at 31 December 2019 and 2018 approximates market rate the book value approximates fair value;
- The fair value of amounts due to group undertaking due in 2028 approximates to their carrying value as they bear interest at a rate linked to LIBOR;
- The fair value of amounts due to parent undertaking is derived from expected cash flows taking account of credit risk and market observed returns for such instruments and equates to Level 2 within the fair value hierarchy;
- The fair value of floating rate loans due from subsidiary undertaking approximates to their carrying value as they bear interest at a rate linked to LIBOR and there have been no significant changes in credit risk since the issue of the instruments. A cash flow projection approach has been used with reference to observed market returns and accords to Level 2 in the fair value hierarchy;
- The fair value of fixed rate loans due from subsidiary undertaking has been based on a cash flow projection with reference to observed market returns and accords to Level 2 in the fair value hierarchy. As the fixed rate at 31 December 2019 and 2018 approximates market rate, the book value approximates fair value; and
- The fair value of current group receivables and group payables approximates to their carrying amounts due to the short-term maturities of these instruments.

Financial risk management

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

Liquidity risk

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

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

2019	Borrowings and Preference shares £m	Group payables £m	Total £m
Not later than one year	24.1	128.6	152.7
More than one year but not more than two years	23.9	-	23.9
More than two years but not more than five years	74.3	-	74.3
More than five years	6,051.9	-	6,051.9
Total payments	**6,174.2**	**128.6**	**6,302.8**

Notes to the financial statements

10. **Financial instruments** (continued)

Financial risk management (continued)

Borrowings disclosure in the table above is based on contractual payments as they existed as at 31 December 2019.

2018	**Borrowings and Preference shares £m**	**Group payables £m**	**Total £m**
Not later than one year	24.1	110.0	134.1
More than one year but not more than two years	25.0	-	25.0
More than two years but not more than five years	77.3	-	77.3
More than five years	6,082.2	-	6,082.2
Total payments	6,208.6	110.0	6,318.6

Borrowings disclosure in the table above is based on contractual payments as they existed as at 31 December 2018.

As Preference share dividend payments can be deferred, they have been included in the maturity analysis in the same category as the redemption date in 2027.

Interest payments on the loan due to group undertaking due in 2028, which was deferred in 2017 may be deferred until the final redemption date and has therefore been included in the same category as the principal repayment in 2028. Subsequent interest is calculated on the principal as well as any deferred interest. Interest can only be deferred if the company has insufficient funds available, therefore in the maturity analysis interest has been included in the year in which the interest becomes payable prior to repayment of the principal amount in 2028, with no compounding of interest.

As interest payments on the loan due to parent undertaking can be deferred, they have been included in the maturity analysis in the same category as the principal repayment in 2027.

The principal repayments of the Preference shares and the loans due to related parties are expected to be at the respected maturity dates.

Credit risk
Given the counterparties of group receivables, as set out in note 7, and the security provided under intra-group borrowing arrangements, the directors consider the company's exposure to credit risk to be minimal. An impairment analysis is performed at each reporting date to determine the expected credit losses. The analysis reflects the time value of money and reasonable and supportable information that is available at the reporting date about past events, current condition and forecasts of future economic conditions. Based on the impairment analysis the directors determined that the allowance for expected credit losses as at 31 December 2019 is £nil (2018: £nil). The maximum exposure to credit risk at the reporting date for group receivables is the carrying value of each class of receivable.

Capital risk
The company keeps its funding structure under review in order to fulfil its principal activity of financing the acquisition and subsequent funding of Associated British Ports Holdings Limited.

Previously the company financed its business with shareholder loan notes listed on The International Stock Exchange held by its immediate parent undertaking's shareholders and by intercompany loans from a fellow group undertaking.

Notes to the financial statements

10. **Financial instruments** (continued)

Financial risk management (continued)

These balances were created as part of the acquisition of Associated British Ports Holdings Limited and subsequent refinancing of the ABP (Jersey) Limited group. The company's main transactions each year, which are controlled in conjunction with the rest of the group, relate to interest accrual, receipt and payment.

On 1 December 2018 the shareholder loan notes mentioned above were exchanged for Preference shares whilst the intercompany loan financing was restructured. Refer to notes 9 and 12 for further details.

Ultimate redemption of the Preference shares redeemable in 2027, and the repayment of the intercompany loans from the fellow group undertaking due in 2028, depends on the performance of the ABPA Holdings Limited underlying trading group and the ability of the UK-wide ports and transport operations to generate cash flows.

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

11. **Group payables – current**

	2019 £m	2018 £m
Amounts due to subsidiary undertaking	**128.6**	109.9
Amounts due to group undertaking	**-**	0.1
Total group payables – current	**128.6**	110.0

Amounts due to subsidiary undertaking are in respect of ABP Acquisitions UK Limited. The balance owed primarily relates to amounts charged for group tax relief in prior periods, together with rolled up accrued interest and is repayable on demand. Amounts due to group undertaking are in respect of ABP Mezzanine Holdco UK Limited. Further details on the amounts due to subsidiary and group undertakings are disclosed in note 14.

Disclosure of the financial risks related to these financial instruments is set out in note 10. The company's payables are denominated in sterling.

12. **Share capital**

Issued, called-up and fully paid	2019 £m	2018 £m
Ordinary shares		
303 (2018: 303) Ordinary shares of £0.01 each	**-**	-
Total Ordinary shares	**-**	-
Issued and fully paid		
Preference shares		
268,878,151,281.62 (2018: 268,878,151,281.62) Preference shares of £0.01 each	**2,688.8**	2,688.8
Total Preference shares	**2,688.8**	2,688.8

Notes to the financial statements

12. **Share capital** (continued)

Dividends		
Dividends accrued on preference shares	**264.4**	20.6
Total Preference shares	**264.4**	20.6

On 1 December 2018 268,878,151,281.62 Preference shares of nominal value of £0.01 each were issued for a value of £2,688.8m to the existing shareholder loan holders in exchange for and in proportion to their loan notes. These are classified as financial liabilities within non-current liabilities.

The Preference shares do not carry any voting rights at general meetings, nor carry any further right of participation in the profits of the company other than the entitlement to the Preference dividend. On a return of capital, the Preference shareholders are paid in priority to the Ordinary shareholders an amount equal to the issue price of the Preference share and any unpaid dividends. Ordinary shareholders have the right to receive a repayment of capital and participate in any surplus assets. The Preference shares carry a right to receive a fixed cumulative preferential dividend at the annual rate of 9.0% of the issue price per Preference share. Amounts due in respect of the Preference share dividend shall accrue daily and be calculated in respect of the period to each dividend payment date assuming a 365 day year. Dividends are accrued and payable at 31 December, or at other dates as the company (with the prior consent of Preference shareholders) elects. Dividends can be deferred by the Board of directors until a subsequent dividend payment date or the final redemption date whereupon the deferred amount shall carry interest at an annual rate of 9.0%.

Dividends accrued on Preference shares are payable annually in arrears and can be settled in cash, or deferred until a subsequent dividend payment date or the final redemption date. Amounts of dividend accrued on Preference shares settled in cash are dependent on the amounts of interest income the company receives in cash from its immediate subsidiary undertaking, ABP SubHoldings UK Limited ("ABPS"), which in turn is dependent on the lending agreements of that company's immediate subsidiary undertaking, ABPA Holdings Limited ("ABPAH") and its immediate subsidiary undertakings, ABP Finance Plc ("ABPF") and ABP Acquisitions UK Limited ("ABPA"). As at 31 December 2019 the total outstanding dividends accrued and deferred on the Preference shares was £264.4m (2018: £20.6m).

The Preference shares shall be redeemed by the company at the earliest of (i) a listing; (ii) a sale; and (iii) 16 February 2027, unless otherwise resolved by the Board (with the consent of ABPJ's shareholders). In certain circumstances, early redemption is permitted, including where written notice is received from all Preference shareholders acting together. However, if the company is unable, because of having insufficient funds, to redeem the Preference shares the redemption will take place as soon as the company is lawfully able to do so.

13. **Cash flows from operations**

Reconciliation of loss before taxation to cash flows from operations:	**2019 £m**	**2018 £m**
Loss before taxation	**(24.2)**	(23.9)
Finance costs	**276.1**	279.7
Finance income	**(251.9)**	(255.8)
Operating cash flows before movements in working capital	**-**	-
Cash flows from operations	**-**	-

Notes to the financial statements

13. **Cash flows from operations** (continued)

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

2019	At 1 January liability £m	Cash flows £m	Non-cash changes £m	At 31 December liability £m
Non-current Preference shares and accrued dividends	(2,709.4)	-	(243.8)	**(2,953.2)**
Non-current intercompany borrowings	(484.6)	-	(24.3)	**(508.9)**
Total	(3,194.0)	-	(268.1)	**(3,462.1)**

2018	At 1 January liability £m	Cash flows £m	Non-cash changes £m	At 31 December liability £m
Non-current shareholder loans	(2,484.3)	-	2,484.3	-
Non-current Preference shares and accrued dividends	-	-	(2,709.4)	(2,709.4)
Non-current intercompany borrowings	(2.2)	-	(482.4)	(484.6)
Current intercompany borrowings	(484.9)	-	484.9	-
Total	(2,971.4)	-	(222.6)	(3,194.0)

14. **Related party transactions**

On 1 December 2018 the unsecured subordinated loan notes originally issued in 2006 and the PIK notes issued as settlement of the accrued and unpaid interest on the loan notes were exchanged for newly allotted and issued Preference shares to the same value. The unsecured subordinated loan notes were deemed to be redeemed, immediately cancelled and subsequently delisted from The International Stock Exchange. These Preference shares are considered financial liabilities and not equity, carry a right to a fixed cumulative preferential dividend at the annual rate of 9.0% of the issue price per Preference share, and are redeemable in 2027. Immediately before the exchange of the unsecured subordinated loan notes for Preference shares, holders of the loan notes forgave the company £0.1m of accrued and unpaid interest on the loan notes for no consideration. Refer to notes 12 for further details.

All preference shares held by Canada Pension Plan Investment Board were transferred to CPPIB (Hong Kong) Limited, a Hong Kong registered wholly owned subsidiary of Canada Pension Plan Investment Board on 14 August 2019. The terms of the preference shares were unchanged as a result of the transfer, there was not a substantial modification of the underlying liability, and consequently the preference shares were not de-recognised. This transaction did not impact the percentage holdings of any other shareholder.

Notes to the financial statements

14. **Related party transactions** (continued)

Total shareholder loans / Preference shares are as follows:

Facility type	Due date	Interest / dividend rate per annum	2019 £m	2018 £m
Preference shares				
Preference shares	2027	9.0%	**2,688.8**	2,688.8
Dividend accrued on Preference shares			**264.4**	20.6
Total			**2,953.2**	2,709.4

	2019 £m	2018 £m
Non-cash Preference shares at start of year	**2,688.8**	-
Non-cash Preference shares issued during year	-	2,688.8
Preference shares at end of year	**2,688.8**	2,688.8
Dividend accrued on Preference shares at start of year	**20.6**	-
Dividend accrued on Preference shares during year	**243.8**	20.6
Dividend accrued on Preference shares at end of year	**264.4**	20.6

Details of the shareholder loans / Preference shares held by each related party and related transactions are shown below:

Borealis ABP Holdings B.V.	2019 £m	2018 £m
Non-cash Preference shares at start of year	**594.0**	-
Non-cash Preference shares issued during year	-	594.0
Preference shares at end of year	**594.0**	594.0
Dividend accrued on Preference shares at start of year	**4.5**	-
Dividend accrued on Preference shares during year	**53.9**	4.5
Dividend accrued on Preference shares at end of year	**58.4**	4.5

Borealis Ark Holdings B.V.	2019 £m	2018 £m
Non-cash Preference shares at start of year	**212.6**	-
Non-cash Preference shares issued during year	-	212.6
Preference shares at end of year	**212.6**	212.6
Dividend accrued on Preference shares at start of year	**1.6**	-
Dividend accrued on Preference shares during year	**19.3**	1.6
Dividend accrued on Preference shares at end of year	**20.9**	1.6

Notes to the financial statements

14. Related party transactions (continued)

Canada Pension Plan Investment Board	**2019 £m**	**2018 £m**
Preference shares at start of year	**911.0**	-
Non-cash Preference shares issued during year	-	911.0
Transfer to CPPIB (Hong Kong) Limited	**(911.0)**	-
Preference shares at end of year	-	911.0
Dividend accrued on Preference shares at start of year	**7.0**	-
Dividend accrued on Preference shares during year	**51.2**	7.0
Transfer to CPPIB (Hong Kong) Limited	**(58.2)**	-
Dividend accrued on Preference shares at end of year	-	7.0

CPPIB (Hong Kong) Limited	**2019 £m**	**2018 £m**
Non-cash Preference shares at start of year	-	-
Transfer from Canada Pension Plan Investment Board	**911.0**	-
Preference shares at end of year	**911.0**	-
Dividend accrued on Preference shares at start of year	-	-
Transfer from Canada Pension Plan Investment Board	**58.2**	-
Dividend accrued on Preference shares during year	**31.4**	-
Dividend accrued on Preference shares at end of year	**89.6**	-

Cheyne Walk Investment Pte Limited	**2019 £m**	**2018 £m**
Non-cash Preference shares at start of year	**537.8**	-
Non-cash Preference shares issued during year	-	537.8
Preference shares at end of year	**537.8**	537.8
Dividend accrued on Preference shares at start of year	**4.1**	-
Dividend accrued on Preference shares during year	**48.8**	4.1
Dividend accrued on Preference shares at end of year	**52.9**	4.1

Kuwait Investment Authority	**2019 £m**	**2018 £m**
Non-cash Preference shares at start of year	**268.9**	-
Non-cash Preference shares issued during year	-	268.9
Preference shares at end of year	**268.9**	268.9
Dividend accrued on Preference shares at start of year	**2.1**	-
Dividend accrued on Preference shares during year	**24.3**	2.1
Dividend accrued on Preference shares at end of year	**26.4**	2.1

Anchorage Ports LLP	**2019 £m**	**2018 £m**
Non-cash Preference shares at start of year	**164.5**	-
Non-cash Preference shares issued during year	-	164.5
Preference shares at end of year	**164.5**	164.5
Dividend accrued on Preference shares at start of year	**1.3**	-
Dividend accrued on Preference shares during year	**14.9**	1.3
Dividend accrued on Preference shares at end of year	**16.2**	1.3

Notes to the financial statements

14. **Related party transactions** (continued)

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

Name	Relationship
ABP (Jersey) Limited	Immediate parent
ABP SubHoldings UK Limited	Immediate subsidiary
ABP Acquisitions UK Limited	Intermediate subsidiary
ABP Mezzanine Holdco UK Limited	Fellow group undertaking

The company has the following loans receivable/(payable) with the related parties:

Name	Due date	Interest rate per annum	2019 £m	2018 £m
ABP SubHoldings UK Limited	2027	9.0%	**722.8**	722.8
ABP SubHoldings UK Limited	2028[1]	3.95% per annum plus 6 month sterling LIBOR[1]	**416.0**	416.0
Interest accrued			**2,131.0**	1,879.1
			3,269.8	3,017.9

[1] Refer to note 7 for details on events during the previous reporting period.

Name	Due date	Interest rate per annum	2019 £m	2018 £m
ABP (Jersey) Limited	2027	12.0%	**(0.6)**	(0.6)
Interest accrued			**(2.2)**	(1.9)
			(2.8)	(2.5)
ABP Mezzanine Holdco UK Limited	2028[2]	3.95% per annum plus 6 month sterling LIBOR[2]	**(416.0)**	(416.0)
Interest accrued			**(92.1)**	(68.1)
			(508.1)	(484.1)

[2] Refer to note 9 for details on events during the previous reporting period.

The following tables show the transactions that have been entered into by the company with related parties, together with period end balances, for the relevant financial year:

ABP SubHoldings UK Limited	2019 £m	2018 £m
Intercompany receivable at start of the year	**3,017.9**	2,813.6
Interest charged	**251.9**	255.8
Non-cash movement in interest receivable	**-**	(51.5)
Intercompany receivable at end of the year	**3,269.8**	3,017.9

ABP (Jersey) Limited	2019 £m	2018 £m
Intercompany borrowing at start of the year	**(2.5)**	(2.2)
Interest charged	**(0.3)**	(0.3)
Intercompany borrowing at end of the year	**(2.8)**	(2.5)

14. Related party transactions (continued)

ABP Mezzanine Holdco UK Limited	2019 £m	2018 £m
Intercompany borrowing at start of the year	**(484.1)**	(489.1)
Interest charged	**(24.0)**	(46.5)
Non-cash movement in interest payable	**-**	51.5
Intercompany borrowing at end of the year	**(508.1)**	(484.1)

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

ABP Acquisitions UK Limited	2019 £m	2018 £m
Intercompany payable at start of the year	**(109.9)**	(99.9)
Interest charged 6.97% per annum (2018: 7.61%)	**(7.8)**	(7.7)
Non-cash increase in payables	**(10.9)**	(2.3)
Intercompany payable at end of the year	**(128.6)**	(109.9)

ABP Mezzanine Holdco UK Limited	2019 £m	2018 £m
Intercompany payable at start of the year	**(0.1)**	-
Non-cash increase in payables	**0.1**	(0.1)
Intercompany payable at end of the year	**-**	(0.1)

15. Subsidiary undertakings

All subsidiaries have a registered address of 25 Bedford Street, London, WC2E 9ES and operate in England and Wales, unless otherwise stated. The company's controlling interest in subsidiary undertakings is represented by ordinary shares (with the exception of Associated British Ports which is governed by the Transport Act 1981 and Southampton Port Security Authority Limited which is limited by guarantee). All ordinary shares have voting rights in the same proportion to the shareholding.

	% held by Company
Subsidiary undertakings: Holding/financing	
ABP Acquisitions UK Limited	100
ABP Finance PLC	100
ABP SubHoldings UK Limited	100
ABPA Holdings Limited	100
Subsidiary undertakings: Ports and transport	
ABP Security Limited	100
Associated British Ports	(see below)[1]
Associated British Ports Holdings Limited	100
Immingham Bulk Terminal Limited	100
W.E. Dowds (Shipping) Limited	100
Subsidiary undertakings: Property	
ABP Property Development Company Limited	100
Grosvenor Waterside Investments Limited	100
Millbay Development Company Limited	100
RPM Industrial Site Services Limited	100

Notes to the financial statements

15. **Subsidiary undertakings** (continued)

	% held by Company
Subsidiary undertakings: Group services	
ABP Marine Environmental Research Limited	100
ABPH Marine (Guernsey) Limited[1] (domiciled in Guernsey)	100
UK Dredging Management Limited	100
W.E.D. (Services) Limited (acquired 1 February 2018)	100
Subsidiary undertakings: Dormant	
ABP (Aldwych) Limited	100
ABP (No. 1) Limited	100
ABP (Pension Trustees) Limited	100
ABP Connect Limited	100
ABP Marchwood Limited	100
ABP Nominees Limited	100
ABP Quest Trustees Limited	100
ABP Safeguard Limited	100
ABP Secretariat Services Limited	100
ABP Southampton Properties Limited	100
Aldwych Logistics Investments Limited	100
American Port Services Holdings Limited	100
Amports Cargo Services Limited	100
Amports Contract Personnel Limited	100
Amports Holdings Limited	100
Amports Vehicle Terminals Limited	100
Associated British Ports Investments Limited	100
Auto Shipping Limited	100
Colchester Dock Transit Company Limited	100
Exxtor Shipping Services Limited	100
Grosvenor Buchanan Properties Limited[2] (domiciled in Scotland)	100
Grosvenor Waterside (Cardiff Bay) Limited	100
Grosvenor Waterside (Holdings) Limited	100
Grosvenor Waterside Asset Management Limited	100
Grosvenor Waterside Developments Limited	100
Grosvenor Waterside Group Limited	100
Humber Pilotage (C.H.A.) Limited	100
Ipswich Port Limited	100
Marine Environmental Research Limited	100
Northern Cargo Services Limited	100
Slater's Transport Limited	100
Southampton Free Trade Zone Limited	100
Southampton Port Security Authority Limited	(see below)[3]
The Teignmouth Quay Company Limited	100
Whitby Port Services Limited	100

[1] *Registered address is Frances House, Sir William Place, St. Peter Port, Guernsey, GY1 4HQ.*
[2] *Registered address is Associated British Ports, Port Office, Ayr, Ayrshire, KA8 8AH.*
[3] *This company is a subsidiary undertaking limited by guarantee.*

Notes to the financial statements

16. Ultimate parent undertaking and controlling parties

ABP Bonds UK Limited is a private company limited by shares registered in England and Wales.

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

The wider group's main trading group headed by ABPA Holdings Limited (ABPAH) annual report and accounts can be obtained at its registered offices, 25 Bedford Street, London, WC2E 9ES.

ABPJ is owned by a consortium of investors as shown below:

2019	% of A Ordinary shares	% of B Ordinary shares	% of Preference shares
Borealis ABP Holdings B.V. (owned by OMERS Administration Corporation)	22.10	22.10	22.09
Borealis Ark Holdings B.V. (owned by OMERS Administration Corporation)	7.90	7.90	7.91
CPPIB (Hong Kong) Limited (owned by Canada Pension Plan Investment Board)	30.00	33.88	33.88
9348654 Canada Inc.	3.88	-	-
Cheyne Walk Investment Pte Limited (owned by GIC (Ventures) Pte Limited)	20.00	20.00	20.00
Kuwait Investment Authority	10.00	10.00	10.00
Anchorage Ports LLP (owned by Hermes GPE Infrastructure Fund LP, Hermes Infrastructure (SAP I) LP and Hermes Infrastructure (Alaska) LP)	6.12	6.12	6.12
	100.00	**100.00**	**100.00**

2018	% of A Ordinary shares	% of B Ordinary shares	% of Preference shares
Borealis ABP Holdings B.V. (owned by OMERS Administration Corporation)	22.10	22.10	22.09
Borealis Ark Holdings B.V. (owned by OMERS Administration Corporation)	7.90	7.90	7.91
Canada Pension Plan Investment Board	30.00	33.88	33.88
9348654 Canada Inc.	3.88	-	-
Cheyne Walk Investment Pte Limited (owned by GIC (Ventures) Pte Limited)	20.00	20.00	20.00
Kuwait Investment Authority	10.00	10.00	10.00
Anchorage Ports LLP (owned by Hermes GPE Infrastructure Fund LP, Hermes Infrastructure (SAP I) LP and Hermes Infrastructure (Alaska) LP)	6.12	6.12	6.12
	100.00	**100.00**	**100.00**

All share classes held by Canada Pension Plan Investment Board were transferred to CPPIB (Hong Kong) Limited, a Hong Kong registered wholly owned subsidiary of Canada Pension Plan Investment Board on 14 August 2019. This transaction did not impact the percentage holdings of any other shareholder.

Notes to the financial statements

17. Events after the reporting date

Since the balance sheet date the Covid-19 virus has spread around the world and many governments, including that of the UK, have introduced strict measures to limit social contact in order to slow the spread of the virus. The group of companies to which ABP Bonds UK Limited belongs has been impacted by the slowdown of the economy and by reduced trade flows caused by the measures to limit the spread of the virus. As these measures were not in place at the balance sheet date management have concluded that the economic impact of the Covid-19 virus is a non-adjusting post balance sheet event.

The group continues to monitor carefully the fast changing threat from the Covid-19 virus and is liaising with the relevant health authorities and statutory bodies to ensure the group is delivering the most appropriate and effective response. Management are actively managing safe operation of the business to minimize disruption of business operations in order to minimize the adverse impacts on the group's EBITDA. The group is proactively considering downside scenarios, re-forecasting and stress testing financial results, and monitoring headroom against its loan covenants. Based on currently available information, including consideration of actual results compared to forecast for April and May, the group does not expect the impact of the virus to cause it to default on its covenants or to otherwise threaten the viability of the group.

As described in note 1.3, management have made a number of critical estimates, judgements and assumptions in preparing these accounts. Given the fast moving nature of events and the unprecedented nature of the measures being taken to slow the spread of the virus it is not possible to accurately quantify the financial impact of these measures on the critical estimates, judgements and assumptions. . However management consider it unlikely that the Covid-19 virus will adversely impact on the recoverability of the company's financial assets.