FORTH PORTS LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2017

Registered number: SC 134741

Partner AA
SC321461

FORTH PORTS LIMITED

REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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FORTH PORTS LIMITED

COMPANY INFORMATION

DIRECTORS	Lord Smith of Kelvin (Chairman) Charles Hammond Carole Cran Stuart Wallace Simon Gray Stuart Gray Russell Goodman Stefano Brugnolo Richard Chang Patrick Samson (Alternate)
GROUP COMPANY SECRETARY	Pamela Smyth
REGISTERED OFFICE	Forth Ports Limited 1 Prince of Wales Dock Leith Edinburgh EH6 7DX
REGISTERED NUMBER	SC 134741
INDEPENDENT AUDITOR	Deloitte LLP Statutory Auditor 110 Queen Street Glasgow G1 3BX United Kingdom
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BANKERS	Lloyds Banking Group PLC New Uberior House Third Floor 11 Earl Grey Street Edinburgh EH3 9BN

FORTH PORTS LIMITED

STRATEGIC REPORT

Principal Activities

The principal activities of Forth Ports Limited (the Company) together with its subsidiaries (the Group) are the provision of port facilities and ancillary services in the United Kingdom. The Group has extensive property interests and is also involved in a joint venture on the development of the London Distribution Park (LDP) adjacent to the Port of Tilbury.

The vast majority of the Group's property interests are in port operational land. Any land in excess of these port-related requirements will be kept under review to determine uses which may deliver long-term returns to the Group.

This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Forth Ports Limited and its subsidiary undertakings when viewed as a whole.

Performance Review

The Group revenue for the year was £214.8m which is comparable to the £214.4m achieved in 2016. This was another positive result for the Group with both the Port of Tilbury and Scottish Marine delivering their highest results ever; Scottish Ports was down slightly against 2016's exceptional performance but up against budget.

Gross profit was £103.6m, up £2.4m or 2.3% on 2016. This was as a result of increased profitability of the core port and marine operations which benefited from good cost control and the mix effect of the further reduction in lower margin operations such as container handling.

Administrative expenses, before exceptional items and revaluations, were £23.8m, up £0.2m or less than 1% on 2016. The slight increase was principally due to maintaining good cost control despite inflationary pressures.

Group operating profit, before exceptional items and revaluations, was £78.4m, up £1.3m or 1.7% on 2016, showing a further improvement in the operating profit margin to 36.5% from 36.0% in 2016 reflecting good cost control across all operations.

The share of results of the joint venture of £2.9m (2016 - £5.5m) is the Group's share of the profit on land sales of the LDP joint venture to Legal and General for further HGV parking together with the relevant share of the development profit from the wider development.

Finance income was £16.7m in 2017, up from £14.9m in the previous year. The finance income is mainly due to Group interest receivable on inter-company loans with the immediate parent, Otter Ports Limited. Finance costs before revaluations were £29.2m, down £0.3m on 2016, despite additional notes drawn at the start of 2017, due to decreased net pension finance costs.

Profit before tax, exceptional items and revaluations for the year, was £68.8m, £0.8m or 1% higher than last year primarily due to higher operating profits and the increased finance income.

The tax charge for the Group in 2017, excluding the impact of exceptional items and revaluations, was £13.5m, up from £12.0m last year, bringing the effective tax rate to 19.7% (2016 – 17.6%).

The following revaluation items recognised in the Group Income Statement relate to:

- £16.8m being the change in fair value of investment properties (2016 - £3.9m);
- Gains on interest rate swaps were £6.2m but these were more than offset by losses on cross currency hedges of £13.5m resulting in a net loss of £7.3m (2016 – net gain £14.1m); and
- The retranslation gain on the Series A US $ loan notes of £11.5m (2016 – loss of £22.2m).

The following exceptional items recognised in the Group Income Statement relate to:

- Gain on disposal of land of £1.4m (2016 - £1.6m);
- Remeasurement of the discount rate on the Pilots National Pension Fund (PNPF) provision of £0.7m (2016 - £1.7m); and
- Former Registered Dock Workers Scheme (FRDW scheme) augmentation payments of £0.2m (2016 - £0.3m).

The tax effect of these exceptional items and revaluations was a charge of £3.4m (2016 – credit of £4.6m).

This left the profit after tax for the year at £73.4m (2016 - £50.6m).

The profit for the year of the Company was £332.1m (2016 - £37.9m). The increase in the year is due to increased dividends from subsidiary companies.

The Group's private loan notes funds, together with the Group's bank facilities, will provide the necessary liquidity and resources to finance the Group's operations and capital expenditure plans including those related to the expansion land east of Tilbury where we have commenced the process of getting planning approval through the Nationally Significant Infrastructure Projects (NSIP) planning process.

The Group's forecasts and budgets for the coming periods, together with the finance facilities noted above, underpin the going concern assumption under which these accounts have been prepared.

In terms of the Group's financial position, as reflected in the Balance Sheet at 31 December 2017, the significant year on year changes are as follows:

- Increase in property, plant and equipment (PPE) of £39.5m due to additions of £55.5m and net transfers from other asset categories of £4.5m in the year being offset by depreciation of £19.3m and net disposals of £1.2m. The most significant addition in the year was the balance of the land to the east of Tilbury which we have purchased to facilitate future expansion.
- Investment properties increased in value by £17.4m in the year, primarily at Tilbury, due to a revaluation uplift of £22.8m offset by net transfers out of £5.6m;
- Trade and other receivables increased by £31.5m due to increased trade receivables reflecting increased turnover in the final quarter and an increase in the amount due by the parent company of £27.3m. This increase is due to additional monies advanced in the year and interest charged on the indebtedness;
- Cash and cash equivalents held at the end of the year were £24.2m, an increase of £19.4m in the year;
- The total liability on derivative financial instruments, both current and non-current, increased by £7.1m as a result of the movement in the mark to market value of interest rate and cross currency hedges;
- Borrowings increased in the year reflecting the issuance of the new £50.0m loan notes offset by a gain on the translation of the Series A loan notes at the year end;
- Current trade and other payables decreased by £0.7m due to reduced accruals and deferred income; and
- Retirement benefit obligations decreased by £6.1m to £55.4m, with the net impact of actuarial assumptions (£11.2m) being more than offset by growth in assets held (£17.4m). The adverse impact of the reduction in discount rates and increased inflation assumptions were partially offset by changes in the demographic assumptions reflecting the Forth Ports Group Pension Scheme's (the FP scheme) actual experience.

The value of shareholder's equity at 31 December 2017 was £344.0m, up from £307.1m last year.

Dividend

A dividend of £48.3m was paid during the year (2016 - £34.0m).

Principal Business Risks and Uncertainties

The Group has extensive risk identification and mitigation processes. This data is all combined in a consolidated group-wide risk register. In addition to this, the Executive Directors present to the Board their view of the most significant risks the Group faces. These risks can be summarised under the following headings:

Political/Economic

The ports industry tends to be very resilient in terms of economic shocks but is not immune to changes in GDP. Identified risks that could impact GDP and economic confidence include:

- Brexit and its potential impact on the UK's trade patterns as well as economic growth across the UK; and
- Growth in the Scottish economy could be impacted by ongoing uncertainties relating to greater fiscal and political autonomy.

Customers/Competition

The majority of Forth Ports' customers have long-term contractual agreements and relationships and there is always a risk that, when these contracts expire, they may not be renewed although this is seldom the case. However, there are a couple of specific risks that should be disclosed:

- The container shipping sector is still in a state of flux with global alliances being created between shipping lines, acquisition activity ongoing, profitability challenges for shipping lines and excess capacity in both shipping and UK ports, although this is starting to settle down. All of these factors can result in risks to the activity levels in our UK container operations; and
- North Sea oil related activity is still depressed, although increasing prices are leading to more activity. The Group has a natural hedge against the reduction in project activity resulting from the low oil price in that we benefit from increased liquid bulk volumes on the back of lower feedstock prices as well as increased lay-up revenues. The Group is also seeking to further diversify within this sector by investing in facilities to service both the decommissioning and offshore renewables markets. However, for the longer term health of the Scottish economy there needs to be a vibrant North Sea oil sector.

Environment and Operations

Forth Ports Limited and Port of Dundee Limited are Statutory Harbour Authorities and have responsibilities relating to that including responding to marine incidents in the Firth of Forth and Firth of Tay and maintaining an emergency response centre should such an incident occur. Our capability in this area is tested each year by a major "dry-run" exercise. The Group also seeks to reduce any impact on the environment when making investment decisions as well as constantly striving to be more energy efficient.

Due to the nature of the Group's operations there is an ongoing risk of Health and Safety incidents. This risk is taken extremely seriously with ongoing engagement, training, benchmarking, auditing and awareness exercises. The Safety First programme is key to our operations and engages all of our workforce in trying to deliver the safest possible working environment.

The nature of ports is such that operations are reliant on the infrastructure of those ports including quaysides, lock gates, cranes and warehousing. There is always a risk of a failure of a major piece of infrastructure and the impact that might have on the business. To try and mitigate that, the Group invests in comprehensive maintenance and upgrade programmes across these assets.

Financial Risk Management Policies and Objectives

The financial risk management policies and objectives may be found in the Directors' Report.

Future Developments

The Group's plans for the future are focussed on developing the core port operating assets whilst seeking to maximise any value that can be generated from any non-port operational land. There are three major projects at a strategic level:

- Obtain the necessary planning consents for the new land at Tilbury to facilitate further growth in that port's operations;
- On the back of the investment in the quayside at Dundee, and existing infrastructure at Leith and Rosyth, secure North Sea decommissioning and offshore renewables contracts; and
- Build on the strategic relationships with Ineos and Petroineos to further develop business opportunities at Grangemouth.

Other future developments include:

- Further grow the Ro-Ro activities in Tilbury;
- Consolidate Tilbury's position as the UK's leading recycling port;
- Establish Tilbury's position as the leading construction materials hub;
- Container route development and investment in infrastructure and value added facilities;
- Through working together, further enhance Leith and Dundee's position in supporting North Sea Oil related activities;
- Further develop Port Centric initiatives across both Tilbury and the Scottish Ports;
- Build on the Group's position in the growing cruise market through investment in both the Tilbury Terminal and the Edinburgh Anchorage;
- Support efficient supply chains for some of the UK's key industries, such as North Sea Oil and Gas, Food and Drink, Agriculture, Construction Materials and Renewables;
- Further grow Tilbury's position as the UK's leading import and export Grain Terminals by utilising the new storage facilities under construction; and
- Look to realise value from any non-port operational land without taking development risk as evidenced by the National Housing Trust developments at Leith.

Key Performance Indicators

The Board uses the annual budget as the base for measuring the Group's performance. Financial and non-financial targets are set for individual senior managers and for the businesses within the Group. At the Annual Strategy Review in quarter four, the Board considers the financial projections over a five year time horizon. The overarching aim is to increase the value of the Group for the benefit of the shareholders.

The KPIs which are used to measure this increase in value are:

- Health and safety record, measured by Accident Incidence Rate compared to industry average;
- Group EBITDA[1];
- Growth in value of investment properties (Note 15);
- Growth in the value of port assets (page 5); and
- Distributions to shareholders (page 6).

[1] EBITDA is profit before interest, tax, depreciation and amortisation

In using the individual port EBITDA as a KPI, the Board is looking to increase the trading profit from the ports businesses, excluding certain other financial effects such as revaluation changes to investment properties and significant one-off costs. The movement in the value of property assets is measured on an annual basis by the valuation carried out on the property development assets. The growth in the value of port assets is important because it shows how we are managing the port investment properties and maximising their value.

BY ORDER OF THE BOARD

Carole Cran
Director

20 April 2018

FORTH PORTS LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited consolidated accounts of Forth Ports Limited for the year ended 31 December 2017. There have been no significant events since the balance sheet date. An indication of likely future developments in the business of the Group is included in the Strategic Report.

Company Registration

The Company is registered in Scotland as number SC 134741. The Company is incorporated and domiciled in Scotland and is 100% owned by Otter Ports Limited and is ultimately controlled by Arcus European Infrastructure Fund 1 L.P.

Dividend

Details of dividends can be found in the Strategic Report on page 6.

Future Developments

Details of future developments can be found in the Strategic Report on page 7.

Directors

The Directors of the Company who were in office during the year, and up to the date of signing the accounts, unless otherwise stated were:

Lord Smith of Kelvin (Chairman)
Charles Hammond
Stuart Paterson (resigned 3 January 2018)
Perry Glading (resigned 31 March 2017)
Stuart Wallace (appointed 1 January 2017)
Carole Cran (appointed 3 January 2018)
Simon Gray
Stuart Gray
Graham Marr (resigned 31 December 2017)
Jean-Bastien Auger (resigned 1 January 2017)
Richard Chang (appointed 1 January 2017)
Russell Goodman
Stefano Brugnolo
Patrick Samson (Alternate)

Indemnification of Directors

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Employee Involvement

The general policy of the Group is to welcome employee involvement as far as it is reasonably practicable. Employees are kept informed by meetings, newsletters and notices. Consultation and communication takes place through structured meeting groups and employee representatives as appropriate.

Disabled Persons

The Group provides Occupational Health Services in-house which play a significant part in monitoring the health of employees and ensuring that those members of staff who experience long-term illness or disability receive the appropriate support to secure their return to work. Where their return to work is possible the Group has well-developed procedures to ensure the employee continues to play a productive role within the Group. These procedures are evidenced by the number of employees who remain in employment with disabilities or a restricted capacity to carry out their normal duties. The Group continues to fully endorse the aims of the Disability Discrimination Act and our internal procedures ensure compliance at all locations.

Modern Slavery

The Group has taken steps to ensure that modern slavery and human trafficking is not present within its own business and its supply chain. Forth Ports has produced a Modern Slavery Statement (available on www.forthports.co.uk) which sets out its approach and the activities that will be implemented to ensure compliance with the Act. The Group has also set standards that it expects its suppliers to adhere to in its responsible procurement policy and introduced clauses in its standard contract forms for new contracts to ensure suppliers are able to demonstrate compliance with the Act. The Modern Slavery statement details the steps Forth Ports will be taking going forward to comply with the Act, which focus on training.

We are committed to ensuring our staff understand and are compliant with our approach to preventing modern slavery and human trafficking. The Company has provided the following training and communication on our Modern Slavery Statement:

- The CEO has written to every employee stressing our commitment to preventing modern slavery and human trafficking – a copy of this letter is issued to every new start;
- All new employees, agency workers and contractors are briefed on our Modern Slavery Statement;
- All leadership roles and those that are involved in procurement activities on behalf of the Company have completed an e-learning module to ensure a high level of understanding of the risks of Modern Slavery and Human Trafficking in our supply chain and business, alongside the relevant policies;
- Briefing slides issued to relevant employees; and
- During the year, all employees were reminded, with a message on payslips, on how to report any suspicion of Modern Slavery in our supply chain.

Financial Risk Management

<u>Financial Risk Factors</u>

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

Risk management is carried out by the central finance function (Group Finance), operating under policies approved by the Board of Directors. Group Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

<u>Foreign Exchange Risk</u>

The Group has relatively little exposure to foreign exchange risk other than in respect of US$ denominated loan notes, where cross currency swaps are in place to fix the interest and principal repayments. Where appropriate, entities in the Group use forward contracts, transacted by Group Treasury, to hedge their exposure to foreign currency risk in connection with the measurement currency. Where appropriate, the Group hedges the foreign currency exposure of its contract commitments.

Interest Rate Risk

The Group borrows at variable rates and may use interest rate swaps as cash flow hedges of future interest payments, which have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly half yearly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Credit Risk

The Group's policy is to ensure that property sales are covered by either controlled release of land plots in exchange for cash, fixed charge securities or bank bonds. The Group also checks that Port customers have an appropriate credit history prior to setting approved limits. Derivative counter-parties and cash transactions are limited to quality financial institutions. Refer to Note 20 where provisions for credit losses are disclosed.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Finance aims at maintaining flexibility in funding by keeping committed credit lines available. Refer to the following table for an analysis of the expected undiscounted cash repayment profile of the Group's financial liabilities:

	< 1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Total £m
As at 31 December 2017					
Trade and other payables	30.2	-	-	-	30.2
Derivative financial liabilities:					
- Interest rate swaps	6.7	5.9	14.1	7.3	34.0
- Cross currency swaps	(1.8)	(1.6)	(3.8)	(10.4)	(17.6)
- Euro option	4.2	-	-	-	4.2
- Fuel swap	0.9	0.9	-	-	1.8
Provisions	2.1	1.7	5.4	12.6	21.8
Borrowings	21.5	21.5	315.6	401.4	760.0
	63.8	28.4	331.3	410.9	834.4

	< 1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Total £m
As at 31 December 2016					
Trade and other payables	30.8	-	-	-	30.8
Derivative financial liabilities:					
- Interest rate swaps	7.0	6.5	16.2	10.2	39.9
- Cross currency swaps	(2.4)	(2.2)	(5.7)	(21.0)	(31.3)
- Fuel swap	1.0	0.9	-	-	1.9
Provisions	2.0	1.6	5.3	14.5	23.4
Borrowings	19.7	19.7	294.2	411.2	744.8
	58.1	26.5	310.0	414.9	809.5

The expected maturity of financial assets is the same as the contractual maturity per the Balance Sheet.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group has the authority to return capital to shareholders. It may issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated Balance Sheet) less cash and cash equivalents (£633.0m). Total capital is calculated as "equity" as shown in the consolidated Balance Sheet (£346.8m).

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each Balance Sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. Refer to Notes 23 and 25. Other than in respect of borrowings, there is no difference between the fair value and the book value of these liabilities. The fair value of floating rate borrowings is estimated to be £5.7m higher than their carrying value. The fair value of fixed rate borrowings is not considered to be materially different to book value.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and the Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and Company's ability to continue as a going concern.

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

Auditor

Each Director, as at the date of this report, has confirmed that, insofar as they are aware, there is no relevant audit information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Group's auditor is unaware and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

Pamela Smyth
GROUP COMPANY SECRETARY

20 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTH PORTS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Forth Ports Limited (the Company) and its subsidiaries (the Group) which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group and Company Statements of Cash Flows; and
- the related notes 1 to 38.

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 and, as regards the Company financial statements, as applied in accordance with the provisions 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.

We are independent of the Group and 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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in 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 Group's or 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.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTH PORTS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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 Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTH PORTS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Report on other legal and regulatory requirements

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

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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.

We have nothing to report in respect of these matters.

Colin Gibson CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

20 April 2018

GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Before Exceptional Items and Revaluations £m	Exceptional Items and Revaluations £m	Total 2017 £m	Before Exceptional Items and Revaluations £m	Exceptional Items and Revaluations £m	Total 2016 £m
Group revenue	4,5	214.8	-	214.8	214.4	-	214.4
Cost of sales	6,7	(112.6)	1.4	(111.2)	(113.7)	0.5	(113.2)
Gross profit		102.2	1.4	103.6	100.7	0.5	101.2
Administrative expenses	6,7	(23.8)	(0.2)	(24.0)	(23.6)	(6.4)	(30.0)
Other income	7	-	16.8	16.8	-	3.9	3.9
Group operating profit	6,7	78.4	18.0	96.4	77.1	(2.0)	75.1
Share of results of joint venture	17	2.9	-	2.9	5.5	-	5.5
Finance income	10	16.7	-	16.7	14.9	-	14.9
Finance costs	7,11	(29.2)	3.5	(25.7)	(29.5)	(8.0)	(37.5)
Profit before tax	6,7	68.8	21.5	90.3	68.0	(10.0)	58.0
Taxation	7,12	(13.5)	(3.4)	(16.9)	(12.0)	4.6	(7.4)
Profit for the year		55.3	18.1	73.4	56.0	(5.4)	50.6
Profit attributable to non-controlling interest		0.0	-	0.0	0.0	-	0.0
Profit attributable to equity shareholder		55.3	18.1	73.4	56.0	(5.4)	50.6
		55.3	18.1	73.4	56.0	(5.4)	50.6

All activities relate to continuing activities.

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £m	2016 £m
Profit for the year		73.4	50.6
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation of investment property transferred from operational land and buildings	15	6.0	11.0
Deferred tax on revaluation of investment property	28	(0.8)	(1.6)
Effect of tax rate change for deferred tax on revaluation opening balance	28	-	0.7
Actuarial gain/(loss) on defined benefit pension schemes	29	8.0	(5.3)
Deferred tax on actuarial (gain)/loss	21	(1.6)	1.1
Effect of tax rate change for deferred tax on defined benefit pension schemes	21	0.2	(0.7)
Other comprehensive expense recognised directly in equity, net of tax		11.8	5.2
Total comprehensive income for the year		85.2	55.8
Attributable to:			
Non-controlling interest		0.0	0.0
Equity shareholder		85.2	55.8
		85.2	55.8

BALANCE SHEETS
AS AT 31 DECEMBER 2017

ASSETS	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets					
Property, plant and equipment	14	363.8	324.3	63.9	62.8
Investment property	15	397.8	380.4	100.7	96.9
Intangible assets	16	58.0	58.5	0.9	0.8
Investment in joint venture	17	-	2.7	-	-
Investments in subsidiaries	18	-	-	228.8	228.8
Derivative financial assets	25	15.5	28.1	15.5	28.1
Deferred tax assets	21	9.4	10.5	9.4	10.5
		844.5	804.5	419.2	427.9
Current assets					
Inventories	19	8.6	8.6	0.7	0.6
Trade and other receivables	20	314.1	282.6	891.9	558.4
Derivative financial assets	25	1.8	2.4	1.8	2.4
Cash and cash equivalents	22	24.2	4.8	23.5	2.6
		348.7	298.4	917.9	564.0
LIABILITIES					
Current liabilities					
Trade and other payables	23	(30.5)	(31.2)	(480.9)	(438.0)
Current tax liabilities	24	(5.0)	(2.1)	(1.9)	(2.1)
Derivative financial instruments	25	(6.7)	(6.9)	(6.7)	(6.9)
Provisions	26	(2.4)	(2.0)	(1.5)	(1.5)
		(44.6)	(42.2)	(491.0)	(448.5)
Net current assets		304.1	256.2	426.9	115.5
Non-current liabilities					
Borrowings	25	(657.2)	(596.6)	(251.7)	(229.6)
Trade and other payables	27	(1.1)	(1.0)	(1.1)	(1.0)
Deferred tax liabilities	28	(48.1)	(44.8)	(1.2)	(0.0)
Retirement benefit obligations	29	(55.4)	(61.5)	(55.4)	(61.5)
Derivative financial instruments	25	(26.3)	(32.2)	(26.3)	(32.2)
Provisions	26	(16.9)	(17.9)	(15.8)	(16.7)
		(805.0)	(754.0)	(351.5)	(341.0)
Total assets less total liabilities		343.6	306.7	494.6	202.4
SHAREHOLDER'S EQUITY					
Share capital	30	23.1	23.1	23.1	23.1
Share premium	30	-	19.6	-	19.6
Fair value and other reserves	30	5.6	10.9	52.0	66.3
Retained earnings		315.3	253.5	419.5	93.4
Total shareholder's equity		344.0	307.1	494.6	202.4
Non-controlling interest in equity		(0.4)	(0.4)	-	-
Total equity		343.6	306.7	494.6	202.4

As permitted by Section 408 of the Companies Act 2006, the Company's Income Statement is not shown separately in these accounts. The profit for the financial year was £332.1m (2016 - £37.9m).

The accounts on pages 17 to 60 were approved and authorised for issue by the Board of Directors on 20 April 2018 and signed on its behalf by:

Charles Hammond
Director

Carole Cran
Director

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				Non-controlling interest	Total Equity
	Share capital £m	Share premium £m	Fair value and other reserves £m	Retained earnings £m	£m	£m
Group						
Balance at 1 January 2016	23.1	19.6	10.9	226.2	(0.4)	279.4
Revaluation on transfer of investment property (Note 15)	-	-	-	11.0	-	11.0
Deferred tax on revaluation of investment property (Note 28)	-	-	-	(1.6)	-	(1.6)
Effect of tax rate change for deferred tax on revaluation (Note 28)	-	-	-	0.7	-	0.7
Actuarial loss in defined benefit pension scheme (Note 29)	-	-	-	(5.3)	-	(5.3)
Deferred tax on actuarial loss (Note 21)	-	-	-	1.1	-	1.1
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 21)	-	-	-	(0.7)	-	(0.7)
Other comprehensive expense recognised directly in equity	-	-	-	5.2	-	5.2
Profit for the year	-	-	-	50.6	0.0	50.6
Total comprehensive income for the year	-	-	-	55.8	0.0	55.8
LTIP shares – capital contribution (Note 7)	-	-	-	5.5	-	5.5
Dividends paid (Note 13)	-	-	-	(34.0)	-	(34.0)
Balance at 31 December 2016	23.1	19.6	10.9	253.5	(0.4)	306.7
Revaluation on transfer of investment property (Note 15)	-	-	-	6.0	-	6.0
Deferred tax on revaluation of investment property (Note 28)	-	-	-	(0.8)	-	(0.8)
Actuarial gain in defined benefit pension scheme (Note 29)	-	-	-	8.0	-	8.0
Deferred tax on actuarial gain (Note 21)	-	-	-	(1.6)	-	(1.6)
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 21)	-	-	-	0.2	-	0.2
Other comprehensive income recognised directly in equity	-	-	-	11.8	-	11.8
Profit for the year	-	-	-	73.4	0.0	73.4
Total comprehensive income for the year	-	-	-	85.2	0.0	85.2
Capitalisation of reserves (Note 30)	314.9	-	(3.8)	(311.1)	-	-
Share capital reduction (Note 30)	(314.9)	(19.6)	(1.5)	336.0	-	-
Dividends paid (Note 13)	-	-	-	(48.3)	-	(48.3)
Balance at 31 December 2017	23.1	-	5.6	315.3	(0.4)	343.6

Fair value and other reserves relates to a special reserve of £5.6m. The special reserve arose from the reduction in share capital in 1995. The purpose of this reserve is to maintain the Company's capital.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Share capital £m	Share premium £m	Fair value and other reserves £m	Retained earnings £m	Total equity £m
Company					
Balance at 1 January 2016	23.1	19.6	66.3	88.6	197.6
Revaluation of investment property (Note 15)	-	-	-	0.4	0.4
Deferred taxation on revaluation of investment property (Note 28)	-	-	-	(0.1)	(0.1)
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 21)	-	-	-	(0.7)	(0.7)
Actuarial loss in defined benefit pension scheme (Note 29)	-	-	-	(5.3)	(5.3)
Deferred tax on actuarial loss(Note 21)	-	-	-	1.1	1.1
Other comprehensive income recognised directly in equity	-	-	-	(4.6)	(4.6)
Profit for the year	-	-	-	37.9	37.9
Total comprehensive income for the year	-	-	-	33.3	33.3
LTIP shares – capital contribution (Note 7)	-	-	-	5.5	5.5
Dividends paid (Note 13)	-	-	-	(34.0)	(34.0)
Balance at 31 December 2016	23.1	19.6	66.3	93.4	202.4
Revaluation of investment property (Note 15)	-	-	-	2.1	2.1
Deferred taxation on revaluation of investment property (Note 28)	-	-	-	(0.3)	(0.3)
Actuarial gain in defined benefit pension scheme (Note 29)	-	-	-	8.0	8.0
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 21)	-	-	-	0.2	0.2
Deferred tax on actuarial gain (Note 21)	-	-	-	(1.6)	(1.6)
Other comprehensive expense recognised directly in equity	-	-	-	8.4	8.4
Profit for the year	-	-	-	332.1	332.1
Total comprehensive income for the year	-	-	-	340.5	340.5
Capitalisation of reserves (Note 30)	81.0	-	(12.8)	(68.2)	-
Share capital reduction (Note 30)	(81.0)	(19.6)	(1.5)	102.1	-
Dividends paid (Note 13)	-	-	-	(48.3)	(48.3)
Balance at 31 December 2017	23.1	-	52.0	419.5	494.6

The fair value and other reserves are non-distributable.

Fair value and other reserves relates to a special reserve of £52.0m. The special reserve arose from the reduction in share capital in 1995. The purpose of this reserve is to maintain the Company's capital.

Retained earnings include the following non-distributable amounts:

	2017 £m	2016 £m
Cumulative unrealised increases in fair value of investment properties	3.3	71.9
Deferred tax provided thereon	(0.7)	(3.7)
	2.6	68.2

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash flows from operating activities					
Cash generated from operations	33	92.1	88.2	43.7	75.8
Interest paid		(26.4)	(26.1)	(9.7)	(12.3)
Interest received		0.1	0.1	0.1	0.1
Tax paid		(7.1)	(3.3)	(7.1)	(3.3)
Net cash generated from operating activities		58.7	58.9	27.0	60.3
Cash flows used in investing activities					
Return of investment in joint venture		5.8	12.6	-	-
Dividends from subsidiaries		-	-	-	7.6
Disposal of subsidiary		-	0.3	-	-
Purchase of property, plant and equipment, intangibles and investment property		(55.7)	(61.0)	(7.5)	(11.4)
Sales of property, plant and equipment, intangibles and investment property		2.6	1.5	-	-
Net cash used in investing activities		(47.3)	(46.6)	(7.5)	(3.8)
Net cash inflow before financing activities		11.4	12.3	19.5	56.5
Cash flows generated from financing activities					
Loans from subsidiary companies		-	-	43.4	18.1
Loans to parent company		(14.7)	(13.9)	(14.7)	(13.9)
New loan facilities drawn down		83.0	112.0	33.0	50.1
Loan repayments		(12.0)	(80.0)	(12.0)	(80.0)
Equity dividends paid		(48.3)	(34.0)	(48.3)	(34.0)
Net cash generated from/(used in) financing activities		8.0	(15.9)	1.4	(59.7)
Increase/(decrease) in cash and cash equivalents	33	19.4	(3.6)	20.9	(3.2)
Cash and cash equivalents at start of year		4.8	8.4	2.6	5.8
Cash and cash equivalents at end of year	22	24.2	4.8	23.5	2.6

NOTES TO THE ACCOUNTS

1. General Information

Forth Ports Limited is a private company limited by shares and incorporated in the United Kingdom under the Companies Act 2006. The address of its registered office is given on page 3. The Company and its subsidiaries and joint venture together form the Group. The nature of the Group's operations and its principal activities are the provision of port, cargo handling, towage and related services and facilities. The Group also has non-operational property interests. These consolidated accounts have been approved for issue by the Board of Directors on 20 April 2018.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest million pounds (£m) unless otherwise indicated.

2. Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRICs) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated accounts have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of investment properties at fair value and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted in the preparation of these accounts are set out in Note 37. These policies have been consistently applied to all the years presented, unless otherwise stated.

3. Critical Accounting Judgements, Key Assumptions and Estimation Uncertainty

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions concerning the carrying amounts of assets and liabilities that are not readily apparent from other sources. The Directors have concluded that there are no critical accounting judgements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE ACCOUNTS (CONTINUED)

3. Critical Accounting Judgements, Key Assumptions and Estimation Uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may result in a material adjustment to the carrying amounts of assets or liabilities within the next financial year, are discussed below.

Discount rate and other assumptions used to determine the carrying amount of the Group's defined benefit obligation

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived.

The pension benefit assumptions include gilt yields at the year end, investment returns (including a risk margin over gilt yields), which both impact the discount rate used, price and salary inflation and mortality assumptions. In the prior year, the mortality assumptions were re-assessed taking into account scheme specific experience on life expectancy. Full details of the assumptions used to calculate the pension assets and liabilities including the Directors' assessment of the impact of a reasonably possible change in key assumption on the liability may be found in Note 29.

Rental yields used to determine the fair value of the Group's investment property assets

The fair value of the Group's investment properties are assessed at each balance sheet date and significant judgement is required to determine the yields used to derive the fair value for each property. In estimating the fair value of a property, the Group uses market-observable data to the extent that it is available. Where Level 2 inputs are not available, the Group uses appropriately qualified internal or external valuers to perform the valuation.

For information on valuation techniques and inputs used in the investment property valuation please refer to Note 15. The impact on a carrying value of a reasonably possible change in the underlying key assumptions is quantified therein.

4. Revenue

Revenue represents income earned from Port activities and Property transactions. An analysis of the Group's revenue is as follows:

	2017 £m	2016 £m
Port operations	177.6	178.7
Property rental	37.2	35.7
Total revenue	214.8	214.4

The Group operates wholly in the UK.

5. Pilotage

The undernoted information is given in accordance with Article 4 of the Statutory Harbour Undertakings (Pilotage Accounts) Regulations 1988; this income is included within Group revenue.

	2017 £m	2016 £m
Pilotage revenue	6.4	6.3
Revenue from pilotage exemption certificates	0.0	0.0
Aggregate expenditure*	4.4	4.6

*excludes contributions to the PNPF (Note 29).

6. Group Operating Profit (before exceptional items and revaluations)

Group operating profit has been arrived at after charging/(crediting):

	2017 £m	2016 £m
Depreciation		
- owned assets (cost of sales)	19.6	20.1
- owned assets (administrative expenses)	0.7	0.8
- capital grants (cost of sales)	(1.0)	(1.2)
Amortisation		
- intangible assets – customer relationships (cost of sales)	1.2	1.2
- intangible assets – other (administrative expenses)	0.5	0.6
Repairs and maintenance expenditure on property, plant and equipment (cost of sales)	8.4	9.0
Property rentals (revenue)	(37.2)	(35.7)
Other operating lease rentals payable		
- plant and equipment (cost of sales)	4.5	4.3
- plant and equipment (administrative expenses)	0.2	0.2
Hire of plant and machinery	2.6	2.2
Inventories		
- cost of inventories recognised as an expense (property cost of sales)	0.6	0.5
Employee costs		
- cost of sales (Note 9)	44.3	44.7
- administrative expenses (Note 9)	12.5	18.4
- finance costs (Note 11)	1.6	2.0

Auditor's Remuneration

The fees payable for the audit of the parent Company's annual accounts were £129k (2016 - £109k). The fees payable for the audit of the underlying subsidiaries' annual accounts were £100k (2016 - £110k) and the fees payable for non-audit services were £27k in relation to tax and corporate restructuring advice (2016 - £26k in relation to tax).

NOTES TO THE ACCOUNTS (CONTINUED)

7. Exceptional Items and Revaluations

Exceptional items("*") and revaluations("**") have been disclosed separately because of their quantum or, as in the view of the Directors are not frequent, so as to give a clearer understanding of the Group's financial performance and are charged/(credited) to the Income Statement as follows:

	2017 £m	2016 £m
Cost of sales		
Gain on disposal of land*	(1.4)	(1.6)
Loss on disposal of property, plant and equipment*	0.0	0.5
Redundancy costs*	0.0	0.6
	(1.4)	(0.5)
Administrative expenses		
LTIP shares – value of services provided*	-	5.5
Redundancy costs – reorganisation / pension augmentation payment*	0.2	0.4
Investment write down*	-	0.5
	0.2	6.4
Other income		
Increase in fair value of investment properties** (Note 15)	(16.8)	(3.9)
Finance costs		
Interest rate hedge – mark to market** (Note 11)	(6.2)	6.4
Cross currency interest rate hedge – mark to market** (Note 11)	13.5	(20.5)
Retranslation of Series A US $ loan notes** (Note 11)	(11.5)	22.2
Diesel hedge – mark to market** (Note 11)	(0.0)	(1.8)
Remeasurement of discount rate on PNPF pension provision* (Note 26)	0.7	1.7
	(3.5)	8.0
Taxation		
Current taxation:		
Tax effect of remeasurement of the discount rate on PNPF provision	(0.1)	(0.3)
Deferred taxation		
Tax effect of interest rate hedge movement	(1.2)	2.4
Tax effect of change in fair value of investment property	2.7	(3.0)
Tax effect of retranslation of Series A US $ loan notes	2.0	(3.8)
Tax effect of diesel hedge	0.0	0.1
	3.5	(4.3)
Total taxation	3.4	(4.6)

8. Directors' Emoluments

	2017 £m	2016 £m
Aggregate emoluments	1.9	2.8
Highest paid Director		
Total emoluments and amounts receivable under long-term incentive schemes	0.8	1.1

Retirement benefits are accruing to one Director (2016 - two Directors) under The Forth Ports Group Pension Scheme, a defined benefit scheme. No Directors made contributions to the scheme during the year (2016 – no Director). The highest paid Director is a deferred member of The Forth Ports Group Pension Scheme and had accrued entitlements of £219k (2016 - £213k) under the scheme at the end of the year.

NOTES TO THE ACCOUNTS (CONTINUED)

9. Employee Costs

The aggregate remuneration of all Employees and Directors was:

	2017 £m	2016 £m
Wages and salaries	45.4	47.1
Social security costs	5.3	5.3
LTIP	-	5.5
Pension costs - defined benefit plans	5.1	4.6
- defined contribution plans	1.0	0.6
	56.8	63.1

Average monthly number of Employees and Directors:

	2017 No	2016 No
Operational	743	766
Maintenance	146	149
Administrative	174	175
	1,063	1,090

10. Finance Income

	2017 £m	2016 £m
Interest receivable from parent company (Note 35)	16.6	14.8
Interest receivable on bank and other deposits	0.1	0.1
	16.7	14.9

11. Finance Costs

	2017 £m	2016 £m
Interest on pension liability (Note 29)	11.3	14.1
Interest income on scheme assets (Note 29)	(9.7)	(12.1)
Interest payable to parent company (Note 35)	0.1	0.1
Interest on bank loans and overdrafts	26.5	26.2
Interest rate hedge – mark to market (Note 7)	(6.2)	6.4
Cross currency interest rate hedge – mark to market (Note 7)	13.5	(20.5)
Retranslation of Series A US $ loan notes (Note 7)	(11.5)	22.2
Remeasurement of the discount rate on PNPF provision (Note 7)	0.7	1.7
Amortisation of loan arrangement fees	1.2	1.3
Diesel hedge – mark to market (Note 7)	0.0	(1.8)
Euro currency option – mark to market	(0.2)	(0.1)
	25.7	37.5

NOTES TO THE ACCOUNTS (CONTINUED)

12. Taxation

	2017 £m	2016 £m
Current tax		
Charge for the year	10.0	5.8
Group relief	4.7	8.5
Adjustments in respect of prior years	(0.0)	(1.7)
Total current tax	14.7	12.6
Deferred Tax		
Deferred tax credit in respect of deferred tax assets (Note 21)	(0.3)	(0.2)
Deferred tax charge/(credit) in respect of deferred tax liabilities (Note 28)	2.5	(5.0)
Total deferred tax	2.2	(5.2)
Tax charge	16.9	7.4

The tax charge for the year of 18.72% is lower (2016 – 12.76%, lower) than the standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%). The differences are explained below:

	2017 £m	2016 £m
Profit before tax	90.3	58.0
Profit multiplied by rate of corporation tax in the UK of 19.25% (2016 – 20%)	17.4	11.6
Effects of:		
Adjustments in respect of prior years – current tax	(0.0)	(1.7)
Adjustments in respect of prior years – deferred tax	0.0	1.2
Effect of tax rate change on current year deferred tax	(0.3)	0.7
Effect of tax rate change on deferred tax opening balances	-	(2.2)
Non-deductible exceptional costs	-	0.9
Expenses not deductible for tax purposes	0.4	0.2
Worldwide debt cap interest exemption	(0.1)	(0.4)
Non-taxable element of revaluation gains	(0.4)	(2.9)
Movement in deferred tax due to loss of initial recognition exemption	(0.1)	-
Tax charge	16.9	7.4

Finance Act 2015 set the UK corporate income tax rate for financial year 2016 at 20%. Finance Act (No 2) 2015 set the UK corporate income tax rate for financial years 2017, 2018 and 2019 at 19%, and Finance Act 2016 has reduced the rate for financial year 2020 from 18% to 17%, which are the rates substantively enacted at the balance sheet date. Deferred tax has therefore been provided for at 17% being the rate at which the deferred tax is anticipated to reverse.

13. Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2015 of 32.1p per share	-	14.7
Final dividend for the year ended 31 December 2015 of 20.1p per share	-	9.3
Interim dividend for the year ended 31 December 2016 of 21.7p per share	-	10.0
Final dividend for the year ended 31 December 2016 of 52.7p per share	24.3	-
Interim dividend for the year ended 31 December 2017 of 52.1p per share	24.0	-
	48.3	34.0

NOTES TO THE ACCOUNTS (CONTINUED)

14. Property, Plant and Equipment

	Operational Land and Buildings £m	Plant and Equipment £m	Capital Works in Progress £m	Total £m
Group				
Cost (net of capital grants)				
At 1 January 2017	351.0	190.2	49.8	591.0
Additions	-	-	55.5	55.5
Disposals	(1.2)	(2.2)	-	(3.4)
Transfers between asset categories	71.6	5.9	(73.6)	3.9
At 31 December 2017	421.4	193.9	31.7	647.0
Accumulated depreciation (net of grant amortisation)				
At 1 January 2017	150.5	116.2	-	266.7
Depreciation charge (net of grant amortisation)	9.7	9.6	-	19.3
Disposals	-	(2.2)	-	(2.2)
Transfers between asset categories	(0.4)	(0.2)	-	(0.6)
At 31 December 2017	159.8	123.4	-	283.2
Net book value at 31 December 2017	261.6	70.5	31.7	363.8
Group				
Cost (net of capital grants)				
At 1 January 2016	327.8	180.7	24.3	532.8
Additions	(0.4)	-	61.4	61.0
Disposals	(3.1)	(0.6)	-	(3.7)
Transfers between asset categories	26.7	10.1	(35.9)	0.9
At 31 December 2016	351.0	190.2	49.8	591.0
Accumulated depreciation (net of grant amortisation)				
At 1 January 2016	143.8	106.6	-	250.4
Depreciation charge (net of grant amortisation)	9.6	10.2	-	19.8
Disposals	(2.2)	(0.6)	-	(2.8)
Transfers between asset categories	(0.7)	-	-	(0.7)
At 31 December 2016	150.5	116.2	-	266.7
Net book value at 31 December 2016	200.5	74.0	49.8	324.3

Capital grants included in property, plant and equipment have the following net book amount:

	Operational Land and Buildings £m	Plant and Equipment £m	Total £m
Group			
Cost	19.1	11.8	30.9
Accumulated amortisation	(14.6)	(6.1)	(20.7)
Net book amount at 31 December 2017	4.5	5.7	10.2
Group			
Cost	19.1	11.8	30.9
Accumulated amortisation	(14.2)	(5.7)	(19.9)
Net book amount at 31 December 2016	4.9	6.1	11.0

NOTES TO THE ACCOUNTS (CONTINUED)

14. Property, Plant and Equipment (continued)

	Operational Land and Buildings £m	Plant and Equipment £m	Capital Works in Progress £m	Total £m
Company				
Cost (net of capital grants)				
At 1 January 2017	91.0	51.2	9.6	151.8
Additions	-	-	7.5	7.5
Disposals	-	(0.1)	-	(0.1)
Transfers between asset categories	6.1	3.2	(10.5)	(1.2)
Transfers to other group companies	-	-	(1.0)	(1.0)
At 31 December 2017	97.1	54.3	5.6	157.0
Accumulated depreciation (net of grant amortisation)				
At 1 January 2017	48.1	40.9	-	89.0
Depreciation charge (net of grant amortisation)	2.5	2.1	-	4.6
Disposals	-	(0.1)	-	(0.1)
Transfers between asset categories	(0.4)	-	-	(0.4)
At 31 December 2017	50.2	42.9	-	93.1
Net book value at 31 December 2017	46.9	11.4	5.6	63.9
Company				
Cost (net of capital grants)				
At 1 January 2016	81.3	50.4	4.3	136.0
Additions	-	-	11.4	11.4
Disposals	(2.1)	-	-	(2.1)
Transfers between asset categories	11.8	0.8	(6.1)	6.5
At 31 December 2016	91.0	51.2	9.6	151.8
Accumulated depreciation (net of grant amortisation)				
At 1 January 2016	47.8	38.3	-	86.1
Depreciation charge (net of grant amortisation)	2.4	2.6	-	5.0
Disposals	(2.1)	-	-	(2.1)
Transfers between asset categories	-	-	-	-
At 31 December 2016	48.1	40.9	-	89.0
Net book value at 31 December 2016	42.9	10.3	9.6	62.8

Capital grants included in property, plant and equipment have the following net book amount:

	Operational Land and Buildings £m	Plant and Equipment £m	Total £m
Company			
Cost	11.1	6.6	17.7
Accumulated amortisation	(8.4)	(3.9)	(12.3)
Net book amount at 31 December 2017	2.7	2.7	5.4
Company			
Cost	11.1	6.6	17.7
Accumulated amortisation	(8.0)	(3.7)	(11.7)
Net book amount at 31 December 2016	3.1	2.9	6.0

15. Investment Property

	2017 £m	2016 £m
Group		
Valuation		
At 1 January	380.4	367.7
Fair value movement - to Income Statement (Note 7)	16.8	3.9
- to Statement of Comprehensive Income	6.0	11.0
Net transfers to PPE	(5.6)	(2.2)
Additions	0.2	-
At 31 December	397.8	380.4
Company		
Valuation		
At 1 January	96.9	105.0
Fair value movement - to Income Statement	1.1	(1.2)
- to Statement of Comprehensive Income	2.1	0.4
Net transfers from/(to) PPE	0.6	(7.3)
At 31 December	100.7	96.9

The fair value of the Group's investment property at 31 December 2017 has been arrived at on the basis of a valuation carried out by the Directors at that date having received advice from RICS qualified individuals. The valuation was arrived at by reference to market evidence of transaction prices for similar properties and expected rental yield. The resulting increase in fair value of £16.8m is taken to the Income Statement in the year and £6.0m shown through the Statement of Comprehensive Income in accordance with IAS 40 in relation to assets transferred from PPE during the year. Deferred tax is provided on timing differences arising from the revaluation of investment property.

Key assumptions include equivalent yield, which is set dependent on the nature and location of each specific property. At the year end, the range of yields was 1.65% to 33.16% (2016 – 1.24% to 39.17%).

A 0.5% reduction in the yield assumed would increase the valuation by £29.7m (2016 - £45.6m).

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £37.2m (2016 - £35.7m). Direct operating expenses arising on the investment property in the year amounted to £1.8m (2016 - £1.9m).

NOTES TO THE ACCOUNTS (CONTINUED)

16. Intangible Assets

	Goodwill £m	Customer Relationships £m	Software £m	Total £m
Group				
Cost (net of capital grants)				
At 1 January 2017	50.0	12.0	8.1	70.1
Transfers from PPE WIP	-	-	1.2	1.2
At 31 December 2017	50.0	12.0	9.3	71.3
Accumulated amortisation and impairment (net of grant amortisation)				
At 1 January 2017	-	6.0	5.6	11.6
Charge for the year	-	1.2	0.5	1.7
At 31 December 2017	-	7.2	6.1	13.3
Net book value at 31 December 2017	50.0	4.8	3.2	58.0
Group				
Cost (net of capital grants)				
At 1 January 2016	50.0	12.0	8.2	70.2
Transfers from PPE WIP	-	-	(0.1)	(0.1)
At 31 December 2016	50.0	12.0	8.1	70.1
Accumulated amortisation and impairment (net of grant amortisation)				
At 1 January 2016	-	4.8	5.0	9.8
Charge for the year	-	1.2	0.6	1.8
At 31 December 2016	-	6.0	5.6	11.6
Net book value at 31 December 2016	50.0	6.0	2.5	58.5

Capital grants included in software have the following net book amount:

	Software £m
Group	
Cost	0.3
Accumulated amortisation	(0.1)
Net book amount at 31 December 2017	0.2
Group	
Cost	0.3
Accumulated amortisation	(0.1)
Net book amount at 31 December 2016	0.2

The net book value of software includes internally generated assets of £2.0m (2016 - £2.0m).

During 2012 the Group acquired the remaining shares of London Container Terminal (Tilbury) Limited (LCT) from a fellow Group undertaking and the Group adopted predecessor accounting in relation to the acquisition, resulting in both goodwill and customer relationship assets recognised by Otter Ports Holdings Ltd (OPH) being recognised by the Group.

16. Intangible Assets (continued)

Goodwill that was passed down from OPH on the acquisition of LCT is considered to have an indefinite life in accordance with IFRS 3 (revised). Customer relationships recognised on the acquisition of LCT are written off on a straight-line basis over ten years.

Amortisation of customer relationships of £1.2m (2016 - £1.2m) is included in the cost of sales line in the Income Statement. Amortisation of software of £0.5m (2016 - £0.6m) is charged to administrative expenses.

Goodwill of £50.0m is monitored for impairment purposes at the operating segment level, with the only cash generating unit (CGU) being the Port of Tilbury, including the container operation at Tilbury.

The recoverable amount has been determined on a value in use basis. The calculations are based on five year pre-tax cash flow projections approved by the Directors. Cash flows beyond the initial five year period are extrapolated using the growth rates set out.

The key assumptions used in determining the value in use are as follows:

Assumption	**How Determined**
Revenue	Estimated revenue has been based on management projections taking into account experience and contracted revenue.
Operating margin	Estimated operating margin has been based on management projections taking into account experience and changes in cost base including operating costs and maintenance capital expenditure.
Growth rate	The growth rates in the first five years for the CGU range from -1.7% to 6.8%. The weighted average growth rate used after the fifth year is 2.5% which is consistent with the UK's long-term average growth in GDP.
Discount rate	A pre-tax discount rate of 8.0% has been used and reflects the risks relating to the acquired company.

The value in use is sensitive to changes in the growth rate and discount rate. The Directors performed an impairment test in the year, and the current year tests confirmed that a reasonably possible change in any of the assumptions would not lead to an impairment.

Software	2017 £m	2016 £m
Company		
Cost		
At 1 January	5.9	5.7
Transfers from PPE categories	0.2	0.2
At 31 December	6.1	5.9
Accumulated amortisation		
At 1 January	5.1	4.8
Charge for the year	0.1	0.3
At 31 December	5.2	5.1
Net book value at 31 December	0.9	0.8

NOTES TO THE ACCOUNTS (CONTINUED)

17. Investment in Joint Venture

	2017 £m	2016 £m
Group		
At 1 January	2.7	9.3
Cost of investment in joint venture	-	0.8
Share of profits	3.1	5.5
Return of capital	(5.8)	(13.4)
Reinstatement of 50% of gain on sale of land	-	0.5
At 31 December	-	2.7

The Group's significant interest is as follows:

Name of undertaking	Interest held %	Country of incorporation
London Distribution Park LLP	50	United Kingdom

The interest in LDP is held by a subsidiary company. LDP's activities were developing land for distribution, warehousing and haulage parking adjacent to the Port of Tilbury, complementing the Group's operations and contributing to achieving the Group's overall strategy. The land has now been sold and profits arising distributed to the joint venture partners. It is anticipated that LDP will be dissolved in due course. The joint venture was not strategic to the Group's activities.

18. Investments in Subsidiaries

	2017 £m	2016 £m
Cost and net book value at 31 December	228.8	228.8

The information relating to those subsidiaries whose results or financial position, in the opinion of the Directors, principally affected the figures of the Group, together with details of all other subsidiaries, are set in in Note 38. The Directors consider the value of the investments to be supported by their underlying assets.

19. Inventories

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Materials and spare parts	2.8	2.8	0.7	0.6
Property developments and land held for sale	5.8	5.8	-	-
	8.6	8.6	0.7	0.6

20. Trade and Other Receivables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Current assets:				
Trade receivables	30.6	29.2	13.4	12.9
Less: provision for allowance for credit losses	(0.2)	(0.3)	(0.1)	(0.3)
Trade receivables – (net)	30.4	28.9	13.3	12.6
Prepayments and accrued income	11.1	10.6	2.4	1.8
Less: provision for allowance for credit losses	-	(1.9)	-	-
Amounts owed by parent company	271.1	243.8	271.1	243.8
Amounts owed by subsidiaries	-	-	618.5	299.1
Provision against Group loans	-	-	(14.3)	-
Other receivables	1.5	1.2	0.9	1.1
	314.1	282.6	891.9	558.4
The ageing of past due but not impaired trade receivables is as follows:				
Less than 30 days past due date	10.9	9.5	5.2	3.9
31-60 days past due date	3.6	2.9	2.0	2.3
61-90 days past due date	1.2	0.7	0.5	0.5
Over 90 days past due date	0.5	0.4	0.3	-
	16.2	13.5	8.0	6.7

At 31 December 2017, Group and Company trade receivables of £14.4m and £5.4m (2016 - £15.7m and £6.2m) respectively were not past due or impaired. With respect to trade receivables that are neither past their due date nor impaired, there are no indications as at the reporting date that the payment obligations will not be met. Group trade receivables and accrued income and Company trade receivables of £0.2m and £0.1m (2016 - £2.2m and £0.3m) respectively were identified as being impaired, all of which are provided for. The factor considered in providing for impaired trade receivables is mainly that of the financial position of the customer.

Trade receivables are non-interest bearing and are generally on 30 days' terms. There are no indications, as of the reporting date, that the net trade receivables will not meet their payment obligations.
The allowance for credit losses of trade receivables and accrued income relates entirely to items which are over 90 days past due.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers sufficiently dispersed. The maximum exposure to credit risk at the year end is the value of each class of receivable mentioned above. The Group does not hold any collateral as security over port receivables. There is no material difference between the fair value of trade and other receivables and their carrying amount stated above. The amounts owed by subsidiary undertakings are unsecured and receivable on demand but are not expected to be fully received within the next twelve months. Interest on amounts owed by subsidiary undertakings was applied at rates based on LIBOR and Bank of England base rate.

The other classes within Trade and other receivables do not contain impaired assets.

NOTES TO THE ACCOUNTS (CONTINUED)

21. Deferred Tax Assets

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Deferred tax asset – Retirement benefit obligations				
Asset at 1 January	10.5	9.9	10.5	9.8
Deferred tax on actuarial (gains)/losses recognised				
- in Statement of Comprehensive Income	(1.6)	1.1	(1.6)	1.1
Effect of tax rate change				
- (charged) to Income Statement (Note 12)	(0.0)	(0.1)	(0.0)	(0.0)
- credited/(charged) to Statement of Comprehensive Income	0.2	(0.7)	0.2	(0.7)
Deferred tax on pension contributions				
- credited to Income Statement (Note 12)	0.3	0.3	0.3	0.3
Asset at 31 December	9.4	10.5	9.4	10.5

22. Cash and Cash Equivalents

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash at bank and in hand	24.2	4.8	23.5	2.6

23. Trade and Other Payables - Current Liabilities

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Trade payables	5.3	6.1	1.5	3.1
Amounts owed to parent company	4.5	3.8	4.1	3.4
Amounts owed to subsidiaries	-	-	465.1	421.0
Other taxation and social security	1.5	1.4	0.6	0.6
Accruals and deferred income	19.2	19.9	9.6	9.9
	30.5	31.2	480.9	438.0

Trade payables are mainly contractually due to be paid within one month. The amounts owed to subsidiaries are unsecured and payable on demand but are not expected to be fully paid within the next twelve months. Interest on amounts owed to subsidiaries was applied at rates based on LIBOR and Bank of England base rate.

The Directors consider the carrying amount of trade and other payables approximates to their fair value.

24. Current Tax Liabilities

	Group 2017 £m	Group 2016 £m	Company 2016 £m	Company 2016 £m
Due within one year	5.0	2.1	1.9	2.1

NOTES TO THE ACCOUNTS (CONTINUED)

25. Borrowings

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current				
Bank borrowings	252.6	230.8	251.2	229.1
Loan notes	392.2	353.4	-	-
Other loans	12.4	12.4	0.5	0.5
Total borrowings	657.2	596.6	251.7	229.6
The borrowings are repayable as follows:				
In the third to fifth years inclusive	252.6	230.8	251.2	229.1
After more than five years	404.6	365.8	0.5	0.5
Amount due for settlement after one year	657.2	596.6	251.7	229.6

All borrowings are denominated in UK sterling with the exception of the $160m Series A loan note.

The Group's principal bank and private placement loans are as follows:

The bank term loans and facilities totalling £252.6m have a repayment date of July 2021. The bank term loans are secured by way of a floating charge over the Company's shares and carry interest at a margin plus LIBOR and mandatory costs. The Group has a revolving credit facility (RCF) of £100.0m which, other than the £5.0m overdraft facility with Bank of Scotland, carry the same interest rates as the term loans. At the year end the undrawn amount on the RCF was £59.0m. The overdraft carries interest at a margin over Bank of Scotland base rate. Costs associated of £0.0m were capitalised in the year (2016 - £1.1m) and are being amortised over the loan duration. The other loans represent £0.5m (2016 - £0.5m) of funded debt and £11.9m (2016 – £11.9) from the City of Edinburgh Council for the development held within Sandpiper Road NHT 2014 LLP (Note 39). The funded debt was taken out prior to 1950 and there is no fixed repayment date. The debt is unsecured and carries interest at 3.75%. The loan from City of Edinburgh Council carries interest at 4% and is repayable within 6.5 years of drawdown with the availability to extend for a further 3.5 years.

The first round of private placement loans were raised in the UK and the United States of America partly in US dollars ($160m Series A loans) and partly in GBP sterling (£60m Series B loans, £80m Series C loans and £35m Series D loans) in December 2013. The dollars were immediately swapped into sterling to eliminate exposure to future exchange rate movements. A total of £275.1m was raised and the loans have repayment dates of between 10 and 18 years. The debt is $160m of Series A loans at a fixed rate of 4.89% for 10 years being repaid in 2023, £60.0m of Series B loans at a fixed rate of 4.80% for 10 years being repaid in 2023, £80.0m of Series C loans at a fixed rate of 5.03% for 18 years being repaid in 2031 and £35.0m of Series D loans at a floating rate of LIBOR+1.87% for 18 years being repaid in 2031.

On 15 December 2016, the Group issued £50m of Series A loans at a fixed rate of 2.62% for 10 years being repayable in 2026. On 6 January 2017, the Group issued £50m of Series B loans at a fixed rate of 2.62% for 10 years being repayable in 2027.

Costs associated of £0.0m were capitalised in the year (2016 - £0.5m) and are being amortised over the loan duration.

The Group has fixed the interest rate on £300m which has fixed periods of 5, 7 and 10 years. To ensure the Group was not over-hedged, the Group entered into a contract to swap £46m of fixed rate back to the floating rate.

25. Borrowings (continued)

The exposure of the Group and Company borrowings to interest rate changes and the contractual repricing dates at the year-end are as follows:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
In the third to fifth years inclusive	252.6	230.8	251.2	229.1
Over five years	35.0	35.0	-	-
	287.6	265.8	251.2	229.1

The exposure of the Group and Company borrowings to interest rate changes is managed by using interest rate swaps as explained above.

Covenants
The Group has lenders' covenants which require minimum leverage ratios and interest cover ratios to be met. If these covenants were to be breached, the Group's lenders could demand the immediate repayment of all advances and interest outstanding. There was no breach of these covenants during the year.

Sensitivity Analysis
The Group has effectively fixed 100% of interest rates payable on borrowings, therefore there is no exposure to interest rate movements in the next three years.

Risk Management
An analysis of the expected undiscounted cash repayment profile of the Group's financial liabilities is given in the Directors' Report on page 11, with other Financial Risk Management disclosures.

The weighted average interest rates paid on Group borrowings were as follows:

	2017 %	2016 %
Bank borrowings	4.21	4.24
Loan notes	4.04	4.40
Bank overdraft	1.80	1.55
Other loans	3.99	3.99

The Group has the following undrawn committed borrowing facilities available at 31 December:

	2017 £m	2016 £m
Floating rate		
Expiring within one year	5.0	5.0
Expiring in more than one year	59.0	80.0
	64.0	85.0

The undrawn facilities expiring in more than one year are the undrawn element of the revolving credit facility. The overdraft expires within one year. The fair value of bank borrowings approximates to book value because the interest rate is reset after periods not greater than six months. The fair value of loan notes is not materially different to book value.

NOTES TO THE ACCOUNTS (CONTINUED)

25. Borrowings (continued)

Derivative Financial Instruments

The Group has interest rate and cross currency swaps in place. These Level 2 derivatives relating to the Group's current finance facilities have not been designated as fair value or cash flow hedges and are valued at mark to market with any fair value movement recognised in the Income Statement.

Cross Currency Derivative Assets	Principal	Fixed Rate	Maturity
US$ swap	\$160m	4.89%	December 2023

	2017 £m	2016 £m
Net present value of cash flows		
Due within 1 year	1.8	2.4
Due in more than 1 year	15.5	28.1
	17.3	30.5

Interest Rate Derivative Liabilities	Principal	Fixed Rate	Maturity
5 year fixed rate	£85m	2.06%	June 2021
7 year fixed rate	£65m	4.42%	December 2023
10 year fixed rate	£150m	2.66%	December 2025

	2017 £m	2016 £m
Net present value of cash flows		
Due within 1 year	(6.7)	(6.9)
Due in more than 1 year	(26.3)	(32.2)
	(33.0)	(39.1)

NOTES TO THE ACCOUNTS (CONTINUED)

26. Provisions

	Insurance Claims £m	Pilots' National Pension Fund £m	2017 Total £m	2016 Total £m
Group				
At 1 January	0.4	19.5	19.9	17.3
Transfer from accruals	-	-	-	2.2
Utilisation of provision	(0.2)	(1.7)	(1.9)	(1.6)
Increase in provision	0.6	0.7	1.3	2.0
At 31 December	0.8	18.5	19.3	19.9
Included in current liabilities	0.8	1.6	2.4	2.0
Included in non-current liabilities	-	16.9	16.9	17.9
Total provisions	0.8	18.5	19.3	19.9
Company				
At 1 January	-	18.2	18.2	15.8
Transfer from accruals	-	-	-	2.0
Utilisation of provision	-	(1.5)	(1.5)	(1.4)
Increase in provision	-	0.6	0.6	1.8
At 31 December	-	17.3	17.3	18.2
Included in current liabilities	-	1.5	1.5	1.5
Included in non-current liabilities	-	15.8	15.8	16.7
Total provisions	-	17.3	17.3	18.2

The Insurance Claims provision represents management's best estimate of claims under the General, Marine and Employer's Liability policies. Settlement of such claims is dependent on negotiation and, potentially, litigation with third parties, the timing of which cannot be predicted with complete accuracy.

The Company and Port of Dundee Limited (PoDL) are the Competent Harbour Authority (CHA) in the Firth of Forth and Firth of Tay respectively where they are responsible for the provision of pilotage services. The pilotage services are provided by self-employed pilots. The Trustee of the PNPF Scheme issued proceedings in the High Court in order to seek directions from the Court as to how, by whom and in what proportion the Scheme's deficit should be made up. The judgement was delivered in June 2010 and the judge decided that, in addition to CHA who employ pilots directly, CHA whose pilots are self-employed could be required by the Trustee to contribute to the Scheme deficit. Appeals against this judgement were in progress which had prevented updated valuations taking place in 2007 and 2010. The final judgement was reached during the course of 2012 that CHA who use self-employed pilots would be required to contribute to the Scheme deficit. A Scheme valuation as at 31 December 2010 was performed to determine the extent of the deficit and from this the Trustees have communicated the Company's and PoDL's share of this deficit. As a result, the liability was booked as a provision representing the discounted value of the best estimate of expected future annual cash contributions. The liability is expected to be fully settled by 2028. It should be noted that the deficit will be subject to triennial valuations. A Scheme valuation as at 31 December 2016 was completed with no change to the level of contributions arising.

27. Trade and Other Payables – Non-Current Liabilities

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Amounts owed to parent company – Otter Ports Limited	1.1	1.0	1.1	1.0

The amounts owed to parent company are repayable on or before 31 December 2021. The balance includes an interest bearing loan of £0.1m which bears interest at a rate of 7.34% per annum.

28. Deferred Tax Liabilities

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Deferred tax liability				
Intangible assets – customer relationships	0.8	1.0	-	-
Capital allowances	19.7	20.5	2.8	2.9
Short-term differences	(6.2)	(7.0)	(5.9)	(6.6)
Investment property revaluation surplus	33.8	30.3	4.3	3.7
	48.1	44.8	1.2	0.0
Deferred tax liability – movement				
Liability at 1 January	44.8	48.9	0.0	1.6
Effect of tax rate change (credited)/charged to Income Statement (Note 12)	(0.3)	(1.6)	(0.1)	0.4
Amount charged/(credited) to Income Statement (Note 12)	2.8	(3.4)	1.0	(2.1)
Amount charged to Statement of Comprehensive Income	0.8	0.9	0.3	0.1
Liability at 31 December	48.1	44.8	1.2	0.0

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and where the deferred tax relates to the same authority. Deferred tax assets which require to be disclosed separately are detailed in Note 21.

Within the investment property revaluation surplus of the Group, deferred tax assets of £1.4m (2016 – £1.6m) are recognised for capital tax losses carried forward only to the extent that they offset the deferred tax liability within the Group. We do not expect any of the deferred tax asset to be released within 12 months from the Balance Sheet date.

29. Retirement Benefit Schemes

Defined Benefit Pension Schemes

The Group sponsors one defined benefit pension scheme called The Forth Ports Group Pension Scheme that covers the vast majority of active and former employees.

The FP scheme typically exposes the Group to actuarial risks such as:

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and alternative investments. Due to the long-term nature of the plan liabilities, the Trustees of the FP scheme consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The FP scheme is administered by a separate Board of Trustees composed of employer nominated representatives and member nominated Trustees and continues to be legally separate from the Group. The assets of the FP scheme are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the scheme and are responsible for investment policy and the day-to-day administration of benefits.

The FP scheme provides qualifying employees with an annual pension based on pensionable salary for each completed year's service on attainment of normal retirement ages. The proportion of salary and normal retirement ages vary across the scheme. Active members' benefits also include life assurance cover, albeit the payment of these benefits is at the discretion of the Trustees of the FP scheme.

On withdrawing from active service, a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and is revalued on the Consumer Price Index (CPI) measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is based on the Retail Price Index (RPI) measure of inflation.

The Group continues to consider ways in which to manage the FP scheme's liabilities.

The pension cost relating to the FP scheme was assessed in accordance with the advice of qualified actuaries. The latest formal actuarial assessment of the FP scheme was as at 5 April 2014. The triennial actuarial assessment as at 5 April 2017 is currently ongoing.

The actuaries have provided updated figures for the FP scheme as at 31 December 2017.

Assets are taken at their market value. Liabilities are valued using various assumptions which are listed overleaf.

The total pension cost was £5.1m (2016 - £4.6m). Member contributions are paid in addition.

NOTES TO THE ACCOUNTS (CONTINUED)

29. Retirement Benefit Schemes (continued)

Defined Benefit Pension Schemes

The key assumptions used in the valuation of the Group and Company defined benefit pension scheme was as follows:

	2017 %	2016 %
Discount rate	2.55	2.70
Rate of pension increases	2.10-3.10	2.15-3.15
Inflation rate (RPI)	3.10	3.15
Inflation rate (CPI)	2.10	2.15

Inflation is assumed to be 0.5% lower in the first five years.

The expected future lifetimes used to determine benefit obligations at 31 December were as follows:

	Male 2017	Male 2016	Female 2017	Female 2016
Member age 60 (current life expectancy)	20.8-22.4 years	20.8-22.4 years	27.0 years	27.2 years
Member age 45 (life expectancy at age 60)	23.7 years	23.8 years	28.3 years	28.8 years

Sensitivity of Key Assumptions

A 0.25% change in the discount rate assumed could affect the shortfall position within the FP scheme positively or negatively by approximately £18.5m, a change in assumed life expectancy at age 60 by one year would increase or decrease liabilities by £11.4m and a 0.25% change in the rate of inflation could increase or decrease the liabilities by approximately £15.3m.

Plan Assets

The weighted average asset allocations at the year-end were as follows:

	Plan Assets at 31 December 2017 %	Plan Assets at 31 December 2016 %
Asset category		
Equities	71	75
Bonds and gilts	13	16
Other	16	9
	100	100

The actual return on plan assets in the year ended 31 December 2017 was £27.1m (2016 –£49.7m).

The Trustees review the investments of the FP scheme on a regular basis and consult with the Group regarding any proposed changes to the investment profile. During the year, the investment strategy was reviewed and a number of changes were made to provide a more effective hedge against the impact of significant equity market shock on the assets in the scheme.

NOTES TO THE ACCOUNTS (CONTINUED)

29. Retirement Benefit Schemes (continued)

Movements in the present value of defined benefit obligations and the fair value of the FP scheme's assets were as follows:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Reconciliation of movement in benefit obligation				
Benefit obligation at 1 January	425.4	375.9	425.4	334.0
Transfer on merger	-	-	-	41.9
Current service cost	4.1	3.5	4.1	3.5
Interest cost	11.3	14.1	11.3	14.1
Contributions by scheme participants	2.2	2.3	2.2	2.3
Net re-measurement due to changes in financial assumptions	9.5	88.8	9.5	88.8
Net re-measurement due to changes in demographic assumptions	(2.8)	(45.9)	(2.8)	(45.9)
Net re-measurement due to changes in experience	2.7	-	2.7	-
Benefits paid	(15.7)	(13.3)	(15.7)	(13.3)
Benefit obligation at 31 December	436.7	425.4	436.7	425.4
Reconciliation of movement in scheme assets				
Fair value of plan assets at 1 January	363.9	321.2	363.9	279.4
Transfer on merger	-	-	-	41.9
Interest income on scheme assets	9.7	12.1	9.7	12.1
Return on assets, excluding interest income	17.4	37.6	17.4	37.6
Contributions by employers	4.8	5.0	4.8	5.0
Contributions by scheme participants	2.2	2.3	2.2	2.3
Administrative cost	(1.0)	(1.0)	(1.0)	(1.1)
Benefits paid	(15.7)	(13.3)	(15.7)	(13.3)
Fair value of plan assets at 31 December	381.3	363.9	381.3	363.9
Funded status/net amount recognised	(55.4)	(61.5)	(55.4)	(61.5)

The amounts recognised in the Group Income Statement in respect of these defined benefit schemes are as follows:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Amount recognised in the Income Statement				
Total service cost – cost of sales	4.1	3.5	4.1	3.5
Administrative cost – administrative expenses	1.0	1.1	1.0	1.1
Net interest on net defined benefit liability – finance costs	1.6	2.0	1.6	2.0
Total pension cost recognised in the Income Statement	6.7	6.6	6.7	6.6
Re-measurements of the net defined benefit liability to be shown in the Statement of Comprehensive Income				
Net re-measurement losses - financial	9.5	88.8	9.5	88.8
Net re-measurement gains - demographic	(2.8)	(45.9)	(2.8)	(45.9)
Net re-measurement losses - experience	2.7	-	2.7	-
Return on assets, excluding interest income	(17.4)	(37.6)	(17.4)	(37.6)
Total re-measurement (gains)/losses recognised in the Statement of Comprehensive Income	(8.0)	5.3	(8.0)	5.3

29. Retirement Benefit Schemes (continued)

Funding and Contributions

UK pension legislation requires that pension schemes are funded prudently. The Group is currently paying deficit reduction contributions in accordance with agreements with the Trustees to reduce the deficit over 6 years. The Schedule of Contributions to the Pension Scheme, which was signed in December 2015, requires the Company to contribute 12.7% of pensionable salaries plus annual shortfall contributions of £1,750,000 with effect from April 2016.

Other Pension Schemes

A number of employees are members of The Former Registered Dock Workers' Pension Scheme. The FRDW scheme is a multi-employer defined benefit scheme which was set up many years ago on a national basis to provide pensions to Registered Dock Workers. The most recent formal valuation of the FRDW scheme was carried out in 2013 which recorded a small deficit. In 2013 the FRDW scheme was closed to future accrual. On an ongoing basis, taking into account future outperformance of assets, it was fully funded. The total assets and liabilities of the FRDW scheme are not assigned to specific employers. The employers are not entitled to participate in any surplus arising in the FRDW scheme. The contributions paid by the Group are accounted for as a defined contribution scheme as the Group is unable to identify its share of the assets and liabilities in the FRDW scheme. The Group contributions during the year were £0.1m (2016 - £0.1m).

The Group also has a contractual relationship with self-employed pilots who operate within the Firth of Forth and the Firth of Tay to provide pilotage services. The self-employed pilots make payments into the PNPF (Note 26).

Defined Contribution Pension Schemes

The Group also operates defined contribution pension schemes. The employer contributions to these schemes during the year was £1.0m (2016 – £0.6m).

30. Share Capital

	2017	2016
Group and Company	£m	£m
Authorised:		
58,000,000 Ordinary Shares of 50p (2016 – 58,000,000 shares of 50p)	29.0	29.0
Allotted and fully paid:		
46,080,930 Ordinary Shares of 50p (2016 – 46,080,930 shares of 50p)	23.1	23.1

The Company has one class of Ordinary Share which carries no right to fixed income. Ordinary shares carry equal voting rights and the right to receive dividends when declared.

During the year, the Company capitalised £12.8m of its special reserve and £68.2m of reserves within retained earnings relating to the revaluation of investment property, by means of a share capital issue. The Company then performed a share capital reduction to transfer these amounts, together with its £19.6m share premium and £1.5m of its capital redemption reserve, to distributable retained earnings.

In addition, within the Group, Port of Dundee Limited and Port of Tilbury London Limited capitalised £10.1m and £232.8m respectively in relation to revaluation elements within retained earnings, by means of a share capital issue. These companies then performed share capital reductions to transfer these amounts to distributable retained earnings. These amounts, together with the £68.2m capitalised in the Company, bring the Group capitalisation of retained earnings to £311.1m as shown in the Group Statement of Changes in Equity.

NOTES TO THE ACCOUNTS (CONTINUED)

31. Capital Commitments

Capital commitments, including the value of work still to be carried out on contracts placed but not provided for, were £26.6m for the Group and £11.7m for the Company (2016 - Group £56.3m and Company £2.2m) all of which relate to property, plant and equipment. The Group's share of commitments in the joint venture was £nil (2016 - £nil).

32. Financial Commitments

At 31 December the future aggregate minimum lease payments under non-cancellable operating leases for plant and equipment were as follows:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Within one year	4.4	4.3	0.3	0.0
Between two and five years inclusive	12.5	14.5	0.8	1.6
After five years	3.7	3.6	0.5	-
	20.6	22.4	1.6	1.6

The Group leases various items of plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group is required to give, on average, three months notice for the termination of these agreements. The lease expenditure charged to the Income Statement during the year is disclosed in Note 6.

The future minimum lease payments receivable under non-cancellable operating leases for investment property and certain property within inventories are as follows:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Within one year	31.5	32.9	8.1	6.8
Between two and five years inclusive	104.3	107.8	25.5	22.2
After five years	417.9	373.1	45.1	34.1
	553.7	513.8	78.7	63.1

The Group leases out its investment property with a book value of £397.8m (2016 - £380.4m) under non-cancellable operating lease agreements. The leases are for various lengths of time and have varying terms, escalation clauses and renewal rights.

33. Statements of Cash Flows

a) Reconciliation of profit before tax to cash generated from operations

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Profit before tax	90.3	58.0	339.8	41.7
Adjustments for:				
- (increase)/decrease in fair value of investment properties	(16.8)	(3.9)	(1.1)	1.2
- net finance costs/(income)	7.4	20.8	(27.4)	(10.1)
- depreciation of property, plant and equipment and amortisation of intangibles and capital grants	21.0	21.5	4.7	5.3
- interest on pension cost in finance costs	1.6	2.0	1.6	2.0
- loss on sale of property, plant and equipment	-	0.5	-	-
- gain on sale of land	(1.4)	(1.6)	-	-
- (decrease)/increase in provisions	(1.4)	2.6	(1.5)	0.5
- change in retirement benefit obligations	0.3	(2.5)	0.3	(0.4)
- dividends received from Group companies	-	-	(296.4)	(7.6)
- LTIP shares – value of services provided	-	5.5	-	5.5
- share of profits in JV	(2.9)	(5.5)	-	-
Movement in working capital:				
Increase in inventories	-	-	(0.1)	(0.1)
(Increase)/decrease in receivables	(4.9)	(4.2)	31.0	16.6
(Decrease)/increase in payables	(1.1)	(5.0)	(7.2)	21.2
Cash generated from operations	92.1	88.2	43.7	75.8

b) Reconciliation of movement in net debt

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Increase/(decrease) in cash and cash equivalents	19.4	(3.6)	20.9	(3.2)
Cash (inflow)/outflow from movement in borrowings (net)	(71.0)	(32.0)	(21.0)	29.9
Change in net debt resulting from cash flows	(51.6)	(35.6)	(0.1)	26.7
Retranslation of US $ loan notes	11.5	(22.2)	-	-
Capitalisation and amortisation of loan arrangement fees	(1.1)	0.3	(1.1)	0.3
Movement in net debt	(41.2)	(57.5)	(1.2)	27.0
Opening net debt	(591.8)	(534.3)	(227.0)	(254.0)
Closing net debt	(633.0)	(591.8)	(228.2)	(227.0)

34. Analysis of Net Debt

	At 1.1.17 £m	Cash Flows £m	Other Movements £m	At 31.12.17 £m
Group				
Cash at bank and on deposit	4.8	19.4	-	24.2
Debt due outwith one year	(596.6)	(71.0)	10.4	(657.2)
Total net debt	(591.8)	(51.6)	10.4	(633.0)

The other movements consist of the amortisation of arrangement fees for bank facilities of £1.1m and an £11.5m retranslation gain on the Series A US $ loan notes.

35. Related Party Transactions

	2017 £m	2016 £m
Group		
Key management compensation (excluding Directors):		
Salaries and short-term employee benefits	1.2	0.9
Post-employment benefits	0.1	0.0
	1.3	0.9

The following transactions were carried out between the Company and its subsidiaries (unless stated otherwise):

	2017 £m	2016 £m
Nature of Transactions and Related Party		
(a) Revenue:		
Sales of goods and services:		
Port of Dundee Limited	0.1	0.1
Management fees:		
Port of Tilbury London Limited	1.0	1.0
Port of Dundee Limited	0.6	0.6
Forth Property Developments Limited	-	0.1
	1.6	1.7
(b) Finance income - Interest receivable:		
Otter Ports Limited (parent company)	16.6	14.8
International Transport Limited	8.2	7.1
Port of Tilbury London Limited	24.5	23.4
Forth Properties Limited	0.6	0.6
FP Newhaven Two Limited	0.5	0.5
Forth Property Developments Limited	0.8	0.8
Forth Property Investments Limited	0.2	0.2
Forth Property Holdings Limited	0.1	0.1
Port of Dundee Limited	1.9	1.3
	53.4	48.8
(c) Finance costs - Interest payable:		
Otter Ports Limited (parent company)	0.1	0.1
Port of Tilbury London Limited	2.6	2.1
Forth Ports Finance PLC	16.3	13.7
	19.0	15.9
(d) Dividends received:		
Port of Dundee Limited	10.2	3.2
Forth Estuary Towage Limited	2.2	4.4
International Transport Limited	284.0	-
	296.4	7.6

NOTES TO THE ACCOUNTS (CONTINUED)

35. Related Party Transactions (continued)

	2017 £m	2016 £m
(e) Year end balances:		
Trade and other receivables - current:		
Forth Estuary Towage Limited	1.9	1.4
Port of Tilbury London Limited	133.5	125.2
International Transport Limited	420.2	128.0
Edinburgh Forthside Holdings Limited	1.2	1.3
Edinburgh Forthside Investments Limited	4.7	-
Edinburgh Forthside Developments Limited	1.3	-
Forth Property Investments Limited	-	3.9
Forth Property Developments Limited	13.8	14.2
Forth Property Holdings Limited	1.3	1.3
Forth Properties Limited	10.6	10.1
FP Newhaven Two Limited	8.8	8.1
Port of Dundee Limited	21.2	5.6
	618.5	299.1
Trade and other receivables - current:		
Otter Ports Limited (parent company)	271.1	243.8
Otter Ports I Limited	0.0	0.0
	271.1	243.8
(f) Year end balances:		
Trade and other payables - current:		
Forth Ports Finance PLC	395.3	356.1
Port of Tilbury London Limited	66.2	62.3
Non-significant companies	1.9	0.9
Nordic Limited	1.7	1.7
	465.1	421.0
Trade and other payables - current:		
Otter Ports Holdings Ltd	4.1	3.4
Otter Ports II Limited	0.0	0.0
	4.1	3.4
Trade and other payables – non-current:		
Otter Ports Limited (parent company)	1.1	1.0
(g) Key management compensation:		
Company:		
Salaries and short-term employee benefits	0.5	0.6
Post-employment benefits	0.0	0.0
	0.5	0.6

NOTES TO THE ACCOUNTS (CONTINUED)

36. Ultimate Parent Company

The Company is 100% owned by Otter Ports Limited, a company incorporated in England.

Otter Ports Limited is ultimately controlled by Arcus European Infrastructure Fund 1 L.P., an English limited partnership. As Arcus European Infrastructure Fund 1 L.P. does not prepare consolidated accounts for public use the next most senior parent is Otter Ports Holdings Ltd and copies of its consolidated accounts may be obtained from its principal place of business at 6 St Andrew Street, London, EC4A 3AE.

37. Principal Accounting Policies

Impact of New Standards and Interpretations

The following standards and amendments to existing standards have been published and are effective and mandatory for the Group's accounting periods beginning on or after 1 January 2017, but the adoption of which have not led to any changes in accounting policies or have not had a material impact on the Group results for the current year:

Revised Standards

- Amendments to IAS 7: Disclosure Initiative which recommends the provision of a reconciliation of liabilities arising from financing activities (effective 1 January 2017) *;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses: which clarifies accounting for deferred tax assets for unrealised losses on debt instruments (effective 1 January 2017) *; and
- IFRS 12: Disclosure of interests in other entities regarding the classification of the scope of the standard (retrospective application 1 January 2017) *.

NOTES TO THE ACCOUNTS (CONTINUED)

37. Principal Accounting Policies (continued)

New Standards and Interpretations not Applied

The following new standards, amendments and interpretations to standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted:

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions which clarifies the classification and measurement of share-based payment transactions (effective 1 January 2018) *;
- IFRS 9: Financial Instruments – this standard replaces guidance in IAS 39 (effective 1 January 2018);
- Amendments to IFRS 9 (Financial Instruments) regarding general hedge accounting (effective 1 January 2019) *;
- IFRS 15 (Revenue from Contracts with Customers) – this is a converged standard which aims to improve the reporting of revenue and improve comparability of the top line in financial statements globally (effective 1 January 2018);
- Clarifications to IFRS 15: Revenue from Contracts with Customers which do not change the underlying principles of the standard, just clarify and offer some additional transition relief (effective 1 January 2018);
- IFRS 16: Leases – this replaces the current guidance in IAS 17 (effective 1 January 2019) *;
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts which address the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the new insurance contracts Standard (effective 1 January 2018);
- Amendment to IAS 40: Investment Property – amendments simply clarify that to transfer to, or from, investment properties there must be a change in use. (effective 1 January 2018) *;
- Annual Improvements 2014-2016 – these amendments impact three standards:
  - IFRS 1: First time adoption of IFRS regarding the deletion of short-term exemptions for first time adopters regarding IFRS 7, IAS 19 and IFRS 10 (effective 1 January 2018) *;
  - IFRS 12: Disclosure of interests in other entities regarding clarification of scope of the standard (effective 1 January 2018) *;
  - IAS 28: Investments in associates and joint ventures regarding measuring an associate or joint venture at fair value (effective 1 January 2018) *; and
  - IFRS 17: Insurance Contracts which replaces IFRS 4 which currently permits a wide variety of practices in accounting for insurance contracts (effective 1 January 2021) *.
- IFRIC 22: Foreign currency transactions and advance consideration which provides guidance for single payment/receipt and multiple payment/receipt to reduce diversity in application (effective 1 January 2018) *; and
- IFRIC 23: Uncertainty over income tax treatments which clarifies recognition and measurement requirements of IAS 12 'Income Taxes' (effective 1 January 2019) *.

* EU endorsement for these standards, amendments and interpretations had not yet been announced by the time of approval of these accounts. These requirements are not available for early adoption until the completion of the endorsement process.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods, except as noted below:

- IFRS 9 will impact on the measurement and disclosures of financial instruments and in particular consideration of provision for credit losses on intercompany receivable balances;
- IFRS 15 will have impact on revenue recognition although this will primarily be in relation to grossing up revenue and costs where currently certain revenues are shown net of deductions – the quantum of this is not expected to be material and will have no impact on net profit; and
- IFRS 16 will have an impact on the reported assets, liabilities, income statement and cash flows of the Company. Furthermore, extensive disclosures will be required by IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

37. Principal Accounting Policies (continued)

Exceptional Items and Revaluations

Exceptional items are those material items of income and expenditure which the Group has disclosed separately because of their quantum or incidence so as to give a clearer understanding of the Group's financial performance. The Group has also separately disclosed the effect of revaluation of investment properties per IAS 40, the LTIP charge as per IAS 19 and the mark to market of interest rate and cross currency swaps per IAS 39.

Consolidation

Subsidiaries

Subsidiaries are those entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are consolidated from the date on which control is transferred and are no longer consolidated from the date that control ceases. The acquisition method of accounting is used to account for the purchase of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Acquisition-related costs are recognised in the Income Statement as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "Share-based payment"; and
- assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 "Non-current assets held-for-sale and discontinued operations" are measured in accordance with that standard.

The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated fully on consolidation; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Business combinations under common control are accounted for in the consolidated accounts prospectively from the date the group obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their carrying amount in the consolidated accounts of the ultimate parent entity Otter Ports Holdings Ltd. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity in the "consolidation reserve" reflecting business combinations under common control.

NOTES TO THE ACCOUNTS (CONTINUED)

37. Principal Accounting Policies (continued)

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group's interests in joint ventures are accounted for by the equity method of accounting. The investment in the joint venture is initially recorded at cost and is adjusted thereafter for the post-acquisition change in the Group's share of net assets of the jointly controlled entity.

The Group Income Statement includes the Group's share of the profit or loss of the joint venture. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately. When the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the joint venture.

Goodwill

Goodwill arising in a business combination is recognised, at cost less accumulated impairment costs, as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. The allocation of goodwill is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill on businesses acquired after 1 January 1999 is shown as an intangible asset with an indefinite useful life and is subject to an annual impairment test at each relevant group of cash generating units and is also subject to a test whenever there is an indication of impairment. Any such goodwill impairment is not reversed.

Where there is an excess of the Group's interest in the net fair value of the acquiree's identifiable assets over the purchase price (negative goodwill), this amount is taken to the Income Statement in the year of acquisition.

Revenue Recognition

Revenue from Port activities represents the income earned from the provision of port facilities, which comprise cargo handling, towage, pilotage, conservancy services and port related rental income. Such revenue is recorded once the service has been provided.

Revenue from Property includes rental income and sales of property developments. Both Property and Port related rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term. Revenue excludes value added tax and is shown on a gross basis in relation to recoverable charges such as utilities, recoverable overtime and recoverable plant hire costs. Consideration is given to the collectability of any debt outstanding arising from the sale of sites or property developments and provisions are made where necessary. The need for such provisions is reviewed on a regular basis. Profits and losses arising on the sale of sites or completed developments are recognised when contracts for sale have been exchanged and all material conditions have been satisfied. The Board will have due regard to all the circumstances of any individual transaction in determining whether or not any conditions are material or have been satisfied.

Where sites or completed developments are sold to joint ventures, profits are only recognised in proportion to third parties' interests in those entities. The remaining profits are recognised when the sites or completed developments are sold by the joint ventures or associates to unrelated parties.

NOTES TO THE ACCOUNTS (CONTINUED)

37. Principal Accounting Policies (continued)

Property, Plant and Equipment

Operational land and buildings and plant and equipment are stated at historical cost less depreciation. Land and capital works in progress are not depreciated. Cost is the original purchase price of the asset and the cost of bringing the asset to its current condition and includes transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchase costs where appropriate.

All operational buildings and plant and equipment in the course of construction are recorded as capital work in progress until such time as they are brought into use by the Group. Capital work in progress includes all direct expenditure. On completion, such assets are transferred to the appropriate asset category and start being depreciated.

In circumstances where there is a change in use of operational land and buildings to investment property, the fair value of the asset is established at a date when it has been decided to transfer the asset from operational land and buildings to investment property. Any changes at transfer date are recorded in reserves in Other Comprehensive Income.

Depreciation is charged to write off the cost less any residual value of the asset on a straight line basis over the estimated useful lives (which are reassessed at each balance sheet date) as follows:

Buildings and dock structures	15-50 years straight line
Plant and equipment	3-35 years straight line

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of assets are included in operating profit.

Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining life of the related asset.

If an operating property is transferred into investment property, the property is fair valued at the date of transfer, with any revaluation gain or loss being taken to the revaluation reserve.

Investment Property

Investment property, principally comprising tenanted land and buildings within the port estates, is held for long-term rental yields and is not occupied by the Group. Investment property is treated as a long-term investment and is carried at fair value determined annually. Changes in fair values are recorded in the Income Statement in accordance with IAS 40 and are included in other income. If an investment property is transferred into operating property, it is transferred at the fair value at the date of transfer.

Impairment of Assets

Property, plant and equipment and other non-current assets, excluding goodwill, are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount which is the higher of an asset's net selling price and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

NOTES TO THE ACCOUNTS (CONTINUED)

37. Principal Accounting Policies (continued)

Intangible Assets

Excluding goodwill, intangible assets refer principally to computer software and customer relationships and are carried at cost less accumulated amortisation. Except as noted below, costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of those involved in the software development. Expenditure which enhances or extends the performance of identifiable computer software products beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years. If a business is acquired which has long-term customer relationships, those relationships are valued and an intangible asset set up to reflect that value. They are written off on a straight-line basis over periods of up to ten years.

Investment in Subsidiaries

Investments in subsidiaries are stated at cost less any permanent diminution in value by the Company.

Finance and Operating Leases

Leases of assets, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments, and are depreciated over the lower of the useful lives and the term of the lease. The interest element of the rental payments is charged to the Income Statement over the period of the lease contract on the basis of the capital element outstanding. The finance charges outstanding are included in short-term and long-term payables as appropriate. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The cost of operating leases is charged to the Income Statement on a straight-line basis over the life of the lease.

Lease Incentives

Any lease incentive paid or payable for the agreement of a new or existing operating lease is allocated over the term of the lease regardless of its form or cash flow effect. Such incentives are recognised over the lease term, unless another systematic basis is appropriate, in order to ensure the Income Statement reflects the true effective rental charge irrespective of the particular cash flow arrangements agreed.

Grants relating to the Purchase of Property, Plant and Equipment

Capital grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all conditions pertaining to the grant. Grants relating to the purchase of PPE are recorded against the cost of the relevant item and are amortised over the life of the asset. The amount amortised in each period is set against the depreciation charge of the asset to which it relates.

Dividends

Dividends are recorded in the Group's accounts in the period in which they are approved by the shareholders. Group dividends are recorded in the period in which they are approved and paid by the subsidiary company's Board.

NOTES TO THE ACCOUNTS (CONTINUED)

37. Principal Accounting Policies (continued)

Long Term Incentive Plan

Certain directors and employees are eligible for compensation benefits in the form of a long term incentive scheme linked to the performance of the Group. The benefit is recorded at the present value of the expected future cash benefits, charged on a straight line basis over the performance period of the scheme, discounted to take into account the time value of money and specific risks identified in relation to the key assumptions used to determine the value of the benefit. The credit is reflected in equity, as a capital contribution received as settlement of any compensation is undertaken by a parent company.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Restructuring provisions are recognised in the period in which the Group has a present legal or constructive obligation for payment. Costs relating to the ongoing activities of the Group are not provided in advance.

Inventories

Property work in progress relates to expenditure on property development projects, land held for development and project work in progress and is included at cost less amounts written off which are deemed to be irrecoverable. Cost includes all direct expenditure and associated indirect costs and related costs of finance where appropriate. On completion, such assets are transferred to investment properties or sold to third parties.

Expenditure which is directly attributable to the cost of obtaining planning consents for energy projects is included in work in progress where, in the opinion of the Directors, the related project is likely to be successful and the benefits arising from the sale of the consent or from future operations will at least equal the amount capitalised to date. Costs associated with reaching the consented stage include planning application costs, wind surveys, environmental impact studies and salary costs. If planning consent for the project is refused the related costs are written off as an expense to the Income Statement.

Trade Receivables and Accrued Property Income

Trade receivables and accrued property income are carried at original invoice amount less an allowance made for impairment of these receivables. An allowance for impairment of trade receivables and accrued property income is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The carrying amount of the asset is reduced through the use of this impairment allowance and the amount of the loss is recognised in the Income Statement. In future periods the unwinding of the discount is recognised within finance income.

Borrowings

Borrowings are recognised initially at the fair value of the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings. Foreign currency borrowings are retranslated at the balance sheet date.

37. Principal Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents are carried in the Balance Sheet at cost. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Share Capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds. Where the Company or its subsidiaries purchases the Company's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholder's equity as own shares held. Where such shares are subsequently sold, any consideration received is included in shareholder's equity.

Accounting for Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Balance Sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Group includes a number of companies, including the Company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax assets driven by current tax losses arising in other companies within the same tax group. Payment for group relief is made equal to the tax benefit and amounts are included within the current tax disclosures.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Current tax rates in the relevant jurisdiction are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

37. Principal Accounting Policies (continued)

Employee Benefits

Defined Benefit Plans

Pension contributions are charged principally at a rate calculated by the Actuary to provide, over the expected remaining service lives of current employees, for all retirement benefits related to projected final salaries and wages. The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet date minus the fair value of plan assets, together with adjustments for past service cost. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using market yields on high quality corporate bonds. Actuarial gains and losses are recognised in full as they arise in the Statement of Comprehensive Income.

Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

Accounting for Derivative Financial Instruments and Hedging Activities

At 31 December 2017 the Group had no derivative financial instruments that were designated as hedges.

The derivative financial instruments associated with the Group's current finance facilities have not been designated as fair value or cash flow hedges and are valued at mark to market and any fair value movement thereon is recognised through the Income Statement.

Fair Value Estimation of Financial Instruments

The fair value of interest rate swaps and cross currency swaps is calculated as the present value of the estimated future cash flows.

NOTES TO THE ACCOUNTS (CONTINUED)

38. List of Subsidiaries

All Group subsidiaries have year end dates of 31 December and will make individual Annual Returns to the Registrar of Companies. The Group's joint venture has a year end date of 31 March.

The interests in Forth Ports Finance PLC, International Transport Limited, Port of Dundee Limited, Forth Estuary Towage Limited, Nordic Limited and Forth Property Holdings Limited are held directly by Forth Ports Limited. In all other cases the interest is held by a subsidiary. The principal country of registration and operation of the above undertakings is Scotland, with the exception of Forth Ports Finance PLC, International Transport Limited, Port of Tilbury London Limited, London Container Terminal (Tilbury) Limited and Nordic Limited which are registered and operate in England. Subsidiaries are accounted for by the Company at historical cost less provision for any impairment.

Subsidiary		Interest Held %	Description of Undertaking
International Transport Ltd	**	100%	Intermediate holding company
Port of Tilbury London Ltd	**	100%	Port operator
London Container Terminal (Tilbury) Ltd	**	100%	Non-trading
Forth Estuary Towage Ltd	*	100%	Towage services
Forth Ports Finance PLC	**	100%	Finance company
Nordic Ltd	**	100%	Dormant/non-trading
Port of Dundee Ltd	*	100%	Port operator
Forth Property Holdings Ltd	*	90%	Intermediate holding company
Forth Property Investments Ltd	*	90%	Property investment company
Forth Property Developments Ltd	*	90%	Property development
Edinburgh Forthside Holdings Ltd	*	100%	Non-trading company
FP Newhaven Two Ltd	*	100%	Property investment company
Forth Properties Ltd	*	100%	Property development
Forth Energy Ltd	*	100%	Dormant/non-trading
Fife Energy (Services) Ltd	*	100%	Dormant/non-trading
Forth Energy (Pipelines) Ltd	*	100%	Dormant/non-trading
Forth Energy (Services) Ltd	*	100%	Dormant/non-trading
Forth Energy (Tilbury) Ltd	**	100%	Dormant/non-trading
Forth Energy (Retail) Ltd	*	100%	Dormant/non-trading
Forth Energy (Generation) Ltd	*	100%	Dormant/non-trading
Forth Energy (Distribution) Ltd	*	100%	Dormant/non-trading
Edinburgh Forthside Developments Ltd	*	100%	Dormant/non-trading
Port of Grangemouth Security Authority Ltd	*	100%	Dormant/non-trading
Victoria Quay Ltd	*	100%	Dormant/non-trading
Forthside Ltd	*	100%	Dormant/non-trading
Forth Ports Trustees Ltd	*	100%	Non-trading
Edinburgh Forthside Investments Ltd	*	100%	Dormant/non-trading
Forth Estate Management Ltd	*	100%	Dormant/non-trading
Grainfax Ltd	*	100%	Dormant/non-trading
Nordic Holdings Ltd	**	100%	Dormant/non-trading
Nordic Recycling (Lincoln) Ltd	**	100%	Dormant/non-trading
Nordic Data Management Ltd	**	100%	Dormant/non-trading
Port of London Tilbury Ltd	**	100%	Dormant/non-trading
Logistics Academy East of England Ltd	**	100%	Dormant/non-trading
Forthport Ltd	*	100%	Dormant/non-trading
FLM Realisations Ltd	*	100%	Dormant/non-trading
Leith Stevedores Ltd	*	100%	Dormant/non-trading
Cruise Edinburgh Ltd	*	100%	Dormant/non-trading
Sandpiper Road NHT 2014 LLP	*	33⅓%	NHT scheme with Scottish Futures Trust and City of Edinburgh Council
Western Harbour NHT LLP	*	33⅓%	NHT scheme with Scottish Futures Trust and City of Edinburgh Council

Sandpiper Road NHT 2014 LLP and Western Harbour NHT LLP are consolidated as subsidiaries as the Group is considered to have economic control.

NOTES TO THE ACCOUNTS (CONTINUED)

38. List of Subsidiaries (continued)

Subsidiary		Interest Held %	Description of Undertaking
Tilbury on the Thames Trust	**	100%	Promotion of heritable buildings for community benefit.
Joint Venture			
London Distribution Park LLP	**	50%	JV POTLL with Roxhill (Tilbury) Ltd

Registered Address

* 1 Prince of Wales Dock, Leith, Edinburgh EH6 7DX
** Leslie Ford House, Tilbury Freeport, Tilbury, Essex RM18 7EH

Subsidiary audit exemption

The following subsidiaries have taken advantage of the exemption from audit under section 479A of the Companies Act 2006:

Subsidiary	Registered number
Edinburgh Forthside Investments Ltd	SC274929
Edinburgh Forthside Developments Ltd	SC321461
Nordic Ltd	05396187
London Container Terminal (Tilbury) Ltd	01249844