Company Registration No. 02375726

FCC Environment Services (UK) Limited

Annual report and financial statements

for the year ended 31 December 2019

FCC Environment Services (UK) Limited

Annual report and financial statements 2019

Contents

FCC Environment Services (UK) Limited

Annual report and financial statements 2019

Officers and professional advisers

Directors

V F Orts-Llopis
P Taylor
A Serrano Minchan
T Nuñez (resigned 1 April 2019)

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FCC Environment Services (UK) Limited

Strategic report

The Directors present their strategic report on the affairs of FCC Environment Services (UK) Limited ("the Company") for the year ended 31 December 2019.

Overview of Group

The Company is an indirect subsidiary of Fomento de Construcciones y Contratas, S.A. ("FCC"), the ultimate parent company domiciled in Spain. FCC is a significant multi-national business listed on the Madrid stock exchange with operations in Europe, America, Africa and the Middle East. FCC's principal activities cover Environmental Services (including water and waste management), Construction, Cement and Real Estate.

The activities, strategy and risks affecting the Company are inextricably similar to, and dependent on, those of FCC Environment (UK) Limited ("FCC E UK") and FCC E UK's subsidiary undertakings (together the "Group"), which, like the Company, are all fellow subsidiary undertakings of FCC. The Company relies upon the Group for the provision of many of its services and to operate the waste management facilities and contracts. Consequently, the following narrative relates to the Group and includes the Company as a fellow subsidiary undertaking of FCC.

FCC's financial capacity and depth of experience in the European waste infrastructure sector is backed by over 100 years of experience in operating municipal services contracts. This complements the position of the Group as a leading waste management, recycling and renewable energy business, and the Group's ambition to maintain its position as a significant player in establishing the next generation of waste treatment infrastructure in the UK. The core services provided by the Group are fully aligned with FCC's strategic growth plans. The Group is ideally placed to take advantage of local opportunities to provide the services and infrastructure required by the UK, to meet existing legislative framework and emerging proposals to create a circular economy, by recognising the true value of the materials we handle. The Board continues to look forward to the opportunities that are presented to the Group and its employees by virtue of FCC's plans to expand and embed its operations in the UK.

The Board's strategy is to "Own the Waste" where possible and to maximise the value of resource, produce renewable energy and to provide 360 degree solutions to its customers. The Board sees the development of major waste infrastructure to support sustainable waste management and strategic long-term partnerships as key to the Group's future business growth. It anticipates continuous activity and deployment of Group resources into recycling facilities, renewable energy projects, the development of innovative waste treatment solutions and the provision of regional waste management services and facilities. The Board remains of the view that Energy from Waste ("EfW") will be a key component of the UK's waste and resource strategy and, in combination with other treatment, recycling and recovery operations, backed up by landfill disposal for residues, is a strategy that represents a long-term sustainable solution for meeting the Group's clients' diversion targets and to reduce our carbon footprint.

Principal activities

The Company's principal activities are the collection and transportation of domestic, commercial, industrial and other types of refuse, management of recycling facilities, street cleaning and ground maintenance. The Company feels that it is capable of offering an integrated service package to local authorities and this remains the principal focus of management, however it is also an objective to increase its share of the commercial waste market.

Future trends and developments

Covid-19 was declared a global pandemic on 11 March 2020 by the World Health Organisation and measures taken by governments around the world including the UK to combat this public health emergency have had far reaching implications on peoples' lives, economies and businesses. As a designated 'Key Worker' and provider of essential public services, the Group is well placed to weather the current period of uncertainty. Further details of the measures taken by the Group to mitigate the crisis are described in the principal risks and uncertainties section on page 3 whilst further details of the Directors' careful considerations of the impact on future trading are set out in the going concern considerations in note 2.The Directors consider that the waste industry has to constantly adapt to an ever-changing environment, due to the prevailing budgetary conditions of the municipal sector, the pace of changes needed to satisfy society's concerns on sustainability and the subsequent legislative initiatives impacting our industry.

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FCC Environment Services (UK) Limited

Strategic report

The ever changing political horizon, including the long term impact from Brexit and the effects of local authorities' budgetary constraints, continues to challenge the waste management industry. The industry's outlook however, still has many positive opportunities available, arising from an increase in national demand for waste processing infrastructure and technological innovations in the sector.

The UK Government's Clean Growth Strategy and 25 year environment plan, calling for low carbon initiatives in the sector are fully recognised by the Board, which continues to focus on the Group's strategy of utilising value from existing assets where possible and ensuring that it continues to offer the best value and quality of service for sustainable waste management in both the municipal and commercial sectors, whilst continuing to reduce costs.

The Group will also continue to pursue its stated strategy of owning the waste, maximising the value of resource and investment in alternative waste treatment infrastructure and energy recovery technology, whilst promoting the reduction of our carbon footprint.

The Company continues to tender for contracts within its field of expertise and is confident that it will continue to maintain existing contracts and win further new ones as tenders arise.

Business review

The Directors consider that the Company's business performance was satisfactory during 2019. Details of performance are given in the Results, dividends and key performance indicators section below.

Results, dividends and key performance indicators

The results for the year ended 31 December 2019 are set out on page 17. The profit for the financial year ended 31 December 2019 amounted to £10.7million (2018: £6.7million) which included a £10.3million dividend received from Mercia Waste Management Limited, an associate company (2018: £4.0million). The Company paid an interim dividend during the year of £10.3million (2018: £4.0million). The Directors do not recommend the payment of a final dividend (2018: £nil). The profit for the financial year less dividends paid has been transferred to reserves, resulting in a corresponding increase in total equity in the year.

For the year ended 31 December 2019, revenue increased by 12.0% to £34.9million (2018: £31.2million). This mainly reflects net contract gains during the year.

Operating profit in 2019 was £0.1million (2018: £2.0million). Revenue growth from the new contracts was muted by higher first year mobilisation and operating costs whilst 2018 benefitted from the final year of a mature profitable contract.

Cash at bank and in hand at 31 December 2019 was £1.6million (2018: £3.0million), this decrease reflects operating cash inflows less capital expenditure.

FCC manages its operations on a divisional basis and information regarding key performance indicators is included within the FCC annual report. For this reason, the Company's Directors believe that the disclosure of further financial and non-financial key performance indicators for the Company is not appropriate for an understanding of the development, performance or position of the business. Copies of the FCC annual report can be obtained from the address in note 23.

Principal risks and uncertainties

Operating in the UK's highly regulated waste management market provides a clear legal framework as well as presenting numerous risks and uncertainties to the Group. The Directors regard the following to be the principal risks and uncertainties affecting the Group and their approach to managing these risks and uncertainties is considered below:

- **Covid-19:** Covid-19 was declared a global pandemic on 11 March 2020 by the World Health Organisation and measures taken by governments around the world including the UK to combat this public health emergency have had far reaching implications on peoples' lives, economies and businesses. As a designated 'Key Worker' and provider of essential public services, the Group is well placed to weather the current period of uncertainty. In response to the crisis, the Group has established a Covid-19 committee consisting of the Group's executive management team whilst the Group also participates in a wider FCC global response committee. The team has had regular virtual meetings during the crisis with the welfare of employees, customers, suppliers and other stakeholders visiting our sites, the primary concern. The committee has considered and ensured the practical implementation of government guidelines and also managed the operational and financial implications for the business. Consideration of the impact on the Company's going concern status is set out in note 2.

FCC Environment Services (UK) Limited

Strategic report

Principal risks and uncertainties (continued)

- **Environmental risks:** The Group's environmental risks are tightly controlled under environmental legislation enforced principally by the Environment Agency ("EA"), Scottish Environment Protection Agency ("SEPA") and Natural Resources Wales ("NRW"). Compliance with all environmental legislation pertinent to the Group's activities is a minimum requirement. A dedicated in-house team prepare regular reports on environmental compliance at the Group's sites for the Board's review. Environmental objectives are reviewed annually and highlighted within the Group's Safety Health Environment and Quality (SHEQ) Policy Statement. In addition to this there are detailed environmental procedures to enable compliance with environmental legislation.
- **Health and safety:** Health and safety is a key issue for the Group due to the nature of its operations, including the use of heavy plant equipment and difficult working conditions. The Group is continually improving in this area as a result of ongoing consultation with the relevant authorities and the monitoring of best practice initiatives. Whenever an area is highlighted for improvement, the Group seeks to implement such improvement expeditiously; through bulletins, on-line training courses and tool-box briefings. The Group's Incident Review Panel meets quarterly, at which senior management review significant health and safety incidents that have occurred at Group sites to identify improvements and lessons for the business. All employees undertake a rigorous health and safety training programme, which is underpinned by the latest UK legislation, detailed policies and procedures. The Group's executive management receive regular, detailed reports on health and safety performance affecting the Group's operations and it employs a dedicated team, led by the Group Safety, Health, Environment and Quality Manager, to monitor and promote high standards. All employees are expected to recognise their role in achieving acceptable standards of health and safety and to exhibit such understanding through their approach and attitude to work.
- **Business continuity:** The Group, as part of its risk management programme, has developed business continuity planning for its operations. As part of this planning, the Group has developed a bespoke emergency plan for each operational facility (including the diversion of waste from single or multiple sites in the event of major disruption or disaster affecting a site or region). The Group's IT systems are outsourced to a specialist IT services company and are covered by an IT disaster recovery plan, to ensure business continuity.
- **Legislation:** The Group monitors forthcoming and current legislation to ensure full compliance and to anticipate and assess the impact upon its operations, including the significant opportunities it can present. The waste management industry is subject to extensive government regulation which has a substantial impact on the Group's business, FCC E UK therefore actively lobbies for its interests at European, national and regional levels through trade associations and federations.
- **Economic:** The Group has exposure to reduced economic activity, and in the current year has seen waste volumes reduce where lower economic output has been a factor. Reduced global demand for recyclates continues to suppress pricing and Brexit effects on exchange rates have impacted pricing of Refuse Derived Fuel (RDF) exports into mainland Europe. In addition, the decision to leave the European Union has resulted in a period of uncertainty for the UK economy and increased volatility in financial markets. A no deal Brexit scenario could influence consumer confidence, which in turn could affect and lead to lower sales volumes. We have reviewed the potential impacts and consider that we have sufficient mitigations in place. The Group's strategy is focused on growing through recycling and EfW where margins are generally higher than traditional landfill.
- **Litigation:** The Group is subject to litigation from time to time. The outcome of legal action is always uncertain and there is a risk that it may prove more costly and time consuming than expected. There is also a risk that litigation could be instigated in the future that could materially impact the Group. In some liability cases legal expenses are covered by the Group's liability insurance. This risk is mitigated through continued monitoring and employing an experienced and dedicated in-house legal team.
- **Competitive risk:** The Group operates in highly competitive markets in which competitors' service offerings may react faster to legislative and market dynamics than those of the Group. To mitigate this risk, the Group ensures that its asset, cost and capital base is regularly reviewed and flexed to meet changes in customers' demands and to maximise cash generation.

Strategic report

Principal risks and uncertainties (continued)

- **Employees:** The loss of key employees or the inability to hire experienced management personnel could have a materially adverse effect on the business. To manage this risk, succession planning for senior positions within the Group is undertaken. In addition, the Group has the benefit of being able to draw on wider resources from within the FCC Group.
- **Technology:** The Group relies on a variety of information technology platforms for the efficient delivery of its services and has therefore employed a structured IT support team, using internal and external resources. In addition, as there are a wide variety of technologies available to the waste management industry, there is a risk that the technologies employed by the Group might fail to deliver expected performance levels or end products for its customers and so the Group has made a significant investment into establishing a dedicated technical and development team. This team review and assess the available technologies before any are adopted to ensure they will meet the needs of the business and those of its customers.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, liquidity risk and interest rate risk. The Company does not use derivative financial instruments for speculative purposes.

Liquidity and credit risk

The Company's exposure to credit and liquidity risk is reduced as it is a wholly owned subsidiary of FCC. Credit risk arises from the risk of having credit exposures to customers, including outstanding receivables. The Company reviews the credit ratings of all significant customers regularly and continues to monitor the quality of debtor balances on an ongoing basis. Liquidity risk is the risk that the Company does not have sufficient cash resources to meet its commitments. The Company prepares and reviews cash flow forecasts frequently to ensure that it has sufficient resources to meet its cash flow commitments.

The defined benefit pension scheme is a further financial risk for the Company. The Directors consider that this risk is controlled through planning and consultation with actuarial advisors to ensure that contributions are sufficient to mitigate liabilities arising under the scheme.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in note 2 to the financial statements.

Section 172 Statement

Section 172 of the Companies Act 2006 requires each director to act in the way they consider, in good faith, would be most likely promote the success of the Company for the benefit of its members as a whole, and in doing so have regard, amongst other matters, to:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the Company's reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company

Strategic report

Section 172 Statement (continued)

The Board directors have complied with these requirements. Details of the Board's decisions in 2019 to promote long-term success, and how it engaged with stakeholders and considered their interests when making those decisions, can be found throughout this Strategic report and in the Directors' report.

Details of our strategy are set out on page 2 of the Strategic report and page 8 of the Directors' report. The Strategic report highlights performance in the year against that strategy together with future trends and developments.

The employees section of the Directors' report describes actions taken by the Board to promote the interests of its employees, together with the Board's attitude to maintaining the highest standards of honesty, openness and accountability of its employees to ensure that high standards of business conduct are maintained. The Group is also subject to the Code of Ethics issued by its parent company FCC which sets out guidelines for conduct, including in relation to corruption and bribery.

Open, constructive dialogue with our employees and other key stakeholders is critical to inform the Board's decisions. Details of how the Group has engaged with its stakeholders are set out on pages 10-12 of the Directors' report. Whilst the Board has overall responsibility for managing relationships with all our stakeholders, the day to day relationships are mainly managed through divisional senior management teams, supervised principally through monthly management meetings between the divisional senior management teams and the UK based executive directors.

Operating within the UK's highly regulated waste management market, the Board's regard to the environment as well as the health and safety of all persons entering its sites is of paramount importance. How the Group addresses environmental and health and safety risk is set out on page 4.

Approved by the Board and signed on its behalf by:

V F Orts-Llopis
Director
14 October 2020

FCC Environment Services (UK) Limited

Directors' report

The Directors present their annual report and the audited financial statements of the company for the year ended 31 December 2019. Information on the Company's going concern status, financial risk management policies and dividends are disclosed in the strategic report.

Directors

The following individuals served as Directors of the Company during the year ended 31 December 2019 and up to the date of this report:

T Nuñez (Resigned 1 April 2019)
V F Orts-Llopis
P Taylor
A Serrano Minchan

Directors' indemnities

During the financial year, qualifying third party indemnity provisions for the benefit of all Directors of the Company were in force and continue to be in force at the date of this report. Such provisions were made by FCC.

Future developments

The future developments of the Company are considered in detail in the Strategic report on page 2.

Employees

The professionalism and commitment shown by the Group's employees over the last year continues to be a major contribution to its operations. The Board would again like to thank all employees for their hard work, dedication and loyalty during the year.

FCC E UK continues to be committed to ensuring that its policies and practices reflect human resource best practice. The Group's policy of equal opportunity gives all employees the same chance to succeed, irrespective of age, race, nationality, ethnic origin, disability, membership of a trade union, sex or marital status.

The Directors recognise the importance of communication with employees and members of the executive management team regularly visit sites and discuss matters of current interest and concern to the business with staff.

In 2019, continuing our employee engagement programme we launched a recognition portal (in addition to our ABCD awards) whereby employees could be thanked and rewarded for the smaller day to day achievements. It is a peer to peer recognition scheme whereby anyone can be recognised in the following categories - good job, helping hand, great idea or great teamwork. Managers have perk privileges which include awarding gift cards, chocolates, coffees etc. Employees are able to 'like' recognitions and all recognitions are on a scroll feed on the employee benefits portal. We have had massive take up on this and is a way of saying thank you to reward the everyday achievements and tasks that people perform over and above their normal duties.

The Group aims to put its people first when it comes to their health, safety and wellbeing. In order to measure this, we use an independent survey software to run monthly engagement surveys. Our scores, from these surveys have averaged 7.7/10 during 2019, which puts us in the top 25% of energy and utility businesses for employee satisfaction.

We have implemented a number of new initiatives in 2019, including company sick pay for all, company maternity pay for women, more employee benefits choices such as company car or car allowance. We continue with our wellbeing initiatives – health and finances for example.

We believe our employee value proposition is one that makes us a "go to" company to work for and this is reflected in how satisfied our employees continue to be overall.

The Board is dedicated to maintaining the highest standards of honesty, openness and accountability and recognise that employees have an important part to play in achieving this goal. All employees are encouraged to report any concerns they may have over wrongdoing at work via an independent confidential reporting (whistleblowing) service that employees can access should they feel uncomfortable in approaching management.

Directors' report

Employees (continued)

Training continues to be a high priority for the Group and it recognises that it is vital that its employees have the relevant skills to take up the new and exciting roles that are being created as the industry, and therefore the business, evolves. We invested our highest amount ever in training and development during 2019. We have paid particular attention to succession planning in the business and developing our future leaders and bringing new talent into the business by way of apprenticeships and graduate programmes.

Statement of Corporate Governance

Section 172 Companies Act 2006 recognises the position of trust that a director holds with regards to broader stakeholder interests when carrying out their duties to promote the success of the company.

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the Board has applied the Wates Corporate Governance Principles for Large Private Companies published by the Financial Reporting Council ('FRC') in December 2018 (the "Principles"). These Principles provide a framework for ensuring that the Company is well run, well managed and aligned behind a clear purpose.

As one of the UK's most trusted resource and waste management businesses, we are helping shape the policy landscapes, ensuring that our people, systems and strategy remain innovative and focused on delivering excellence.

The Company shares in common its Chief Executive Officer and Chief Financial Officer with the FCC E UK Group and FCC's wider UK Environment business. As a result, there is uniformity and consistency of strategy, policies, procedures and decision making across FCC's integrated UK Environment business. To reflect this, the following narrative on the Directors' application of the Principles, has been consistently reproduced in the annual report and financial statements of each FCC UK Environment business subsidiary and therefore some narrative may not be directly relevant to the Company.

Principle 1 – Purpose and Leadership

As a leading resource and waste management business, the Company has an essential role in delivering a resource-efficient, resilient nation.

The Company has always set itself apart as being a forward-thinking business. Our talented workforce upholds our commitment to sustainability by driving waste materials up the waste hierarchy by treating, recycling and disposing of waste, creating opportunities to build a circular economy and providing outstanding customer service.

Our focus is:

- Own the waste
- Maximise the value of the resource
- Produce renewable energy

As described on page 2, the Group's strategy and core services are fully aligned with FCC's strategic growth plans.

Principle 2 – Board Composition

The Company has three directors, comprising of the Chief Executive Officer, the Chief Financial Officer and one Board director from the FCC parent company to ensure that the effectiveness and accountability of the Board fulfils the strategic needs of the Company and the wider FCC Group. The composition of the board promotes effective decision making and supports the delivery of the company's strategy. Our Senior Management Team, with its extensive expertise, skills and professional backgrounds, provides the leadership assurance that the activities within our various business divisions are aligned to our strategic goals. Each division of the Company is headed up by a member of the Senior Management Team with the expertise to allow them to independently, effectively and objectively focus on the issues specific to their division.

We have a respectful and inclusive culture and are working towards improving the diversity of the Board and in our Senior Management Team. In February 2019, the Company joined CEO's from 29 of the country's leading energy and utilities employers as they launched a long-term sector inclusive commitment to attract a more diverse and inclusive talent into their industry, reflecting the communities they serve.

Statement of Corporate Governance (continued)

Principle 2 – Board Composition (continued)

The Energy & Utilities Skills Partnership, led by sector employers, recognised in its Workforce Renewal Skills Strategy: 2020 that its current workforce failed to fully represent the 65 million people it served every day. The Inclusion Commitment challenges the sector to act and think differently and aims to inspire and connect with underrepresented groups, attracting new talent and ideas into the energy and utilities industry. The Company has always been a fair and equal employer and is working collaboratively with peers, including the Energy & Utilities Skills Partnership on The Inclusion Commitment had brought into sharp focus our achievements to date and the need to go even further to encourage diversity in its many forms

The Company introduced an Equality and Diversity Action Plan, and all staff undertook Equality and Diversity training in 2019.

Principle 3 – Directors Responsibilities

The Board supports our talented workforce, and upholds our commitment to sustainability. The Board agrees, and has the collective responsibility for the strategy of the Group, which is outlined in our strategic report on page 2. The Senior Management Team oversee the day to day responsibilities and opportunities of our very capable workforce.

The Board has established and maintained effective corporate governance through the Group's five values:

- Honesty and respect
- Focus on earnings
- Rigour and professionalism
- Loyalty and commitment
- Community well-being and development

These five values are the most important hallmarks of our Group, whose vision is to be an international reference Employee Services Group that offers global and innovative solutions for the efficient management of resources and the improvement of infrastructures, contributing to improving the quality of the life of employees and the sustainable progress of society.

Principle 4 – Opportunity & Risk

The Group seeks opportunity and investment, whilst maintaining a robust and integrated system of risk management and internal controls.

Opportunities are identified by maintaining deep knowledge and expertise of our sector to understand industry needs. This is achieved through liaison with stakeholders including customers, partner councils, local authorities as well as industry and regulatory bodies. We actively seek opportunities to leverage the Group's assets.

Operating in the UK's highly regulated waste management market, presents numerous risks and uncertainties to the Group. The principal risks and uncertainties affecting the Group and set out in detail on pages 3-5 of the Strategic Report.

The Board has developed and implemented risk management policies and procedures that promote a robust control environment at all levels of the organisation. The Senior Management Team ensures the right level of diligence, and robust measures are in place to identify risks and assess, consider, manage and prioritise any impact.

Statement of Corporate Governance (continued)

Principle 5 – Remuneration

The Board promote appropriate and fair levels of remuneration to attract and retain the best talent and create a business culture that promotes business stability, sustainable growth and the long-term success of the Company and Group.

From April 2017, the Government introduced gender pay gap reporting for all companies with more than 250 employees. The gender pay gap shows the difference between the average hourly pay for men and women across all ages' roles and levels. The gender pay gap differs from equal pay, which is the right for men and women to be paid at the same rate of pay for work of equivalent value. In 2019, the Group's gender pay gap slightly favoured men with a mean of 2.44% and a median of 0.26%.

Principle 6 – Stakeholders

Our stakeholders are our employees, customers, suppliers, partner councils and local authorities, regulatory bodies and neighbours. Stakeholders can be anyone who is positively or negatively affected by our work, actions, achievements and/or purpose.

The Board is committed to promote accountability and transparency with all stakeholders, fostering effective stakeholder relationships and meaningful engagement.

FCC's UK Environment business which includes the FCC E UK Group has:

- Over 2,300 employees (613 in the Company)
- 100 major contracts with a total of 60 local authorities
- 280 UK sites of which 166 are operational
- 7 PFI and PPP Contracts
- 6,000 business waste customer agreements
- 3,500 customer accounts
- 4,000 customer sites

Stakeholders are at the forefront of our business. Liaison with trade customers, partner councils and local authorities is fundamental to ensuring that we understand their needs and continue to deliver the services that they require. Engagement with regulatory bodies is critical to ensuring that we manage the risks set out on pages 3-5 of the Strategic report and remain compliant with applicable laws and regulations. Page 10 of the Directors' report sets out details of our employee engagement programme.

The Group operates five EfWs, four of which have visitor centres which run educational visits for schools, colleges, universities and clubs. They also run community liaison meetings and engage with local business groups. The sites also engage in outreach visits in which the visitor centre managers and various staff visit the schools and colleges and even attended the Buckinghamshire Skills Show careers conference.

During the year, a selection of employees, representing support functions and operations enjoyed the CEO's Roadshow which was held in both the North and the South of the country. Paul Taylor took the opportunity to present his annual overview of the achievements and activities of the Group over the last 12 months with goals and aspirations going forward.

Further examples of how FCC's UK Environment businesses have engaged with various stakeholders during 2019 are as follows:

January 2019

Official opening of the new-look charity shop at Hessle HWRC, which was attended by the Lord Mayor of Kingston upon Hull, Vice Chairman of East Riding of Yorkshire Council, Councillors from both Hull City Council and East Riding of Yorkshire Council and the Chairman of Dove House Hospice.

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

February 2019

Members of Peterborough Council attended the official opening of a new Household Recycling Centre in Fengate.

March 2019

The Environment Agency Chief Executive and the interim Chief Executive of Natural England visited our Greatmoor EfW, which is the UK's largest single grate energy from waste facility.

April 2019

Wokingham U3A group had a tour of RE3 Limited's PFI recycling facility and left feedback confirming that they had found the tour very informative and thought provoking. They left feeling enthused and ready to improve their recycling habits. RE3 Limited is a sister FCC UK subsidiary for which the Group acts in the capacity of operations and maintenance ("O&M") contractor.

May 2019

The West Devon Collections Crew 4 were named the Collection Crew of the Year, at the Awards for Excellence in Recycling and Waste Management 2019 at London's Landmark Hotel. The West Devon contract is operated by sister FCC UK subsidiary, FCC Environment Services (UK) Limited. The Awards are run by Letsrecycle.com. The team also won the Recycle Devon Thank You Award for the second year in a row.

June 2019

Deeping St Nicholas Primary School and St Faith & St Martin Church of England Junior School were chosen as the joint winners of the FCC Lincolnshire Young Environmentalist Award 2019. The Group have sponsored this event for many years now.

July 2019

RE3 Limited produced their thirteenth Annual Environmental Report for 2018/2019 and the theme was engagement. This included the resident's engagement as part of Recycle Week in 2018, allowing residents to take part in the tours conducted at the facility and also included the details of RE3's new website upgrade launch in March 2019, allowing for easy navigation across the website which allows important information to be conveyed to the local residents.

August 2019

The Group launched their Be Aware and Take Care campaign across Recycling Centres urging residents to keep their kids, pets and themselves safe on sites.

September 2019

The Millerhill recycling and energy recovery centre officially opened. This is a state of the art facility operated under a 25 year partnership between, fellow FCC UK undertaking, FCC (E&M) Limited and The City of Edinburgh Council and Midlothian Council. The Group acts as O&M contractor to FCC (E&M) Limited. The official opening brought the Partner Councils and other key stakeholders together to celebrate the occasion.

October 2019

A group of media students from Suffolk New College teamed up with the Group to help raise awareness of waste disposal issues in the county. The students were approached to create content and campaigns for an ongoing marketing initiative that would encourage local residents to recycle.

November 2019

Delegates from the Group took part in the WISH Worker Engagement and Leadership in Health and Safety Conference in Manchester to discuss a range of key sector issues including why health and safety leadership and worker engagement was crucial in today's corporate environment.

FCC Environment Services (UK) Limited

Directors' report

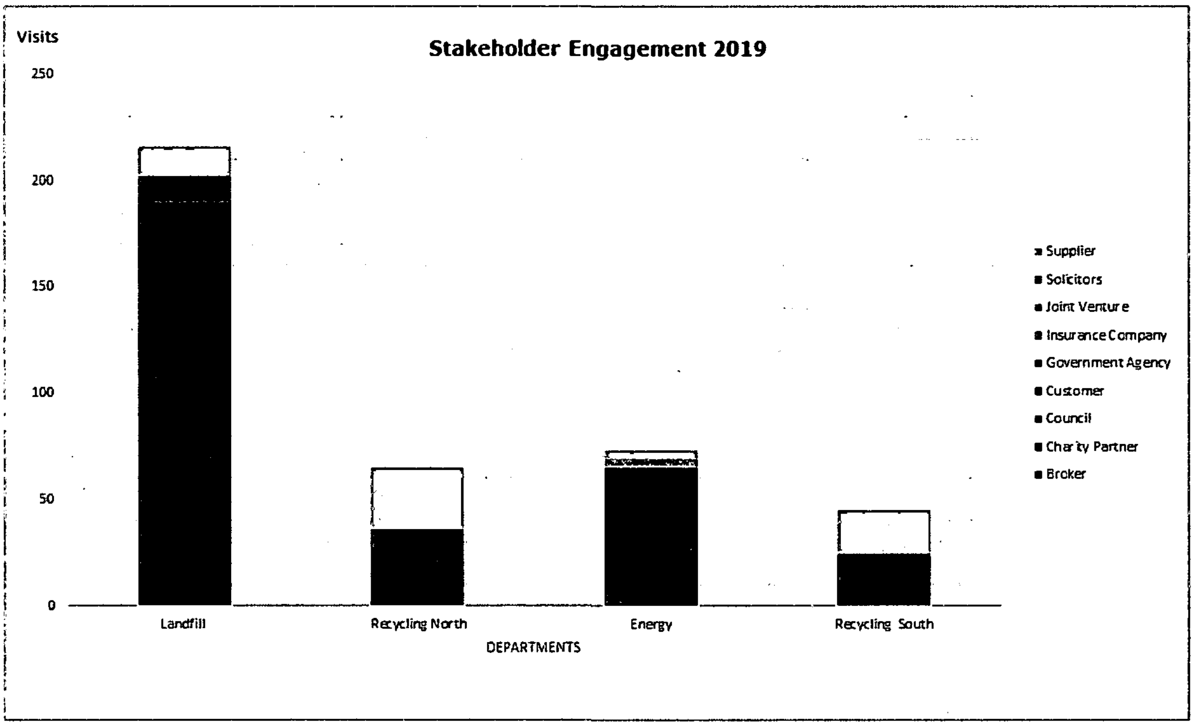
Statement of Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

December 2019

The Group's client East Riding of Yorkshire Council were delighted to announce that their residents were top recyclers in England for a third year running. Government figures showed that East Riding of Yorkshire Council recycled, reused or composted more household waste than any other council in England in 2018/19.

The Group engage with our partner stakeholders, and below is a chart showing four typical departments, and the stakeholders they would typically engage with.



Post balance sheet event

The Covid-19 pandemic is a material non-adjusting event impacting the Group. Please see the principal risks and uncertainties section on page 4 and the going concern section in note 2 for details of the considerations and implications on the Group.

FCC Environment Services (UK) Limited

Directors' report

Directors' responsibilities statement

The Directors are responsible for preparing the Annual 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006 ("the Act").

Auditor

Pursuant to section 487 of the Act, the auditor will be deemed to be reappointed annually by the Company and Deloitte LLP will therefore continue in office until further notice.

Approved by the Board of Directors
and signed on its behalf by:

V F Orts-Llopis
Director
14 October 2020

Independent auditor's report to the members of FCC Environment Services (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of FCC Environment Services (UK) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 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 FCC Environment Services (UK) Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

FCC Environment Services (UK) Limited

Independent auditor's report to the members of FCC Environment Services (UK) Limited

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

We have nothing to report in respect of these matters.

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.

David Johnson B.A., F.C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
15 October 2020

FCC Environment Services (UK) Limited

Statement of comprehensive income
For year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	4	**34,878**	31,153
Staff costs	6	**(15,885)**	(13,596)
Other operating expenses		**(16,647)**	(13,465)
Depreciation and amortisation		**(2,375)**	(2,121)
Gains on disposal of assets		**139**	60
Operating profit		**110**	2,031
Finance income	8	**582**	621
Finance costs	8	**(79)**	(70)
Income from shares in group undertakings		**10,263**	4,048
Profit before tax	5	**10,876**	6,630
Tax (charge)/credit on profit	9	**(213)**	90
Profit for the year		**10,663**	6,720
Other comprehensive income/(expense) for the year:			
Remeasurement of defined benefit pension scheme		**349**	(362)
Restriction of defined benefit pension scheme surplus		**6**	115
Income tax relating to items not reclassified		**(60)**	42
Other comprehensive income/(expense) for the year, net of tax		**295**	(205)
Total comprehensive income for the year		**10,958**	6,515

The notes on pages 20 to 44 are an integral part of these financial statements.

FCC Environment Services (UK) Limited

Balance sheet
As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**12,216**	9,959
Investments in subsidiaries	11	**258**	258
Deferred taxation	16	**412**	646
Pensions asset	19	**398**	51
Trade and other receivables	13	**24,511**	16,011
Total non-current assets		**37,795**	26,925
Current assets			
Stock	12	**220**	209
Trade and other receivables	13	**6,299**	10,330
Cash and cash equivalents		**1,594**	2,965
Total current assets		**8,113**	13,504
Total assets		**45,908**	40,429
EQUITY AND LIABILITIES			
Share capital		**9,300**	9,300
Retained earnings		**22,964**	22,328
Total equity	17	**32,264**	31,628
Non-current liabilities			
Loans and borrowings	15	**1,979**	-
Total non-current liabilities		**1,979**	-
Current liabilities			
Loans and borrowings	15	**310**	-
Trade and other payables	14	**11,355**	8,801
Total current liabilities		**11,665**	8,801
Total liabilities		**13,644**	8,801
Total equity and liabilities		**45,908**	40,429

The notes on pages 20 to 44 are an integral part of these financial statements.

The financial statements of FCC Environment Services (UK) Limited, registered number 02375726 were approved by the Board of Directors and authorised for issue on 14 October 2020. They were signed on its behalf by:

V F Orts-Llopis
Director

FCC Environment Services (UK) Limited

Statement of changes in equity
For the year ended 31 December 2019

	Called-up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019	9,300	22,328	31,628
Profit for the year	-	10,663	10,663
Other comprehensive income for the year	-	295	295
Total comprehensive income	-	10,958	10,958
Dividends paid (note 20)	-	(10,322)	(10,322)
At 31 December 2019	**9,300**	**22,964**	**32,264**
At 1 January 2018	9,300	19,813	29,113
Profit for the year	-	6,720	6,720
Other comprehensive expense for the year	-	(205)	(205)
Total comprehensive income	-	6,515	6,515
Dividends paid (note 20)	-	(4,000)	(4,000)
At 31 December 2018	9,300	22,328	31,628

1. Corporate information

FCC Environment Services (UK) Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006, registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic report.

2. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) issued by the Financial Reporting Council.

The functional and presentational currency of FCC Environment Services (UK) Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Exemptions for qualifying entities under FRS 101

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based Payment*
(b) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IRFS 3 *Business Combinations*
(c) The requirements of IFRS 7 *Financial Instruments: Disclosures*
(d) The requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value Measurement*
(e) The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
   i. paragraph 79(a)(iv) of IAS 1;
   ii. paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
   iii. paragraph 118(e) of IAS 38 *Intangible Assets*;
(f) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*
(g) The requirements of IAS 7 *Statement of Cash Flows*
(h) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
(i) The requirements of paragraph 17 of IAS 24 *Related Party Disclosures*
(j) The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
(k) The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairment of Assets*

Where relevant, equivalent disclosures have been given in the consolidated FCC Group financial statements, copies of which are available from Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG.

2. Accounting policies (continued)

New and amended IFRS standards that are effective for the current year

New amendments to Standards and Interpretations that became mandatory for the first time for the financial year beginning 1 January 2019 are listed below. With the exception of IFRS 16, which is detailed further, the amendments had no material impact on the Company's result:

- IFRS 16 Leases (mandatory for the year commencing on or after 1 January 2019)
- IFRIC 23 Uncertainty over Income Tax Treatments (mandatory for the year commencing on or after 1 January 2019)
- Amendments to IAS 12 Income Tax Consequences of Payments on Financial Instruments Classified as Equity, Amendments to IAS 23 Borrowing Costs Eligible for Capitalisation, Amendments to IFRS 3 Previously Held Interest in a Joint Operation and Amendments to IFRS 11 Previously Held Interest in a Joint Operation *(Annual Improvements 2015-2017 Cycle)* (mandatory for the year commencing on or after 1 January 2019)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (mandatory for the year commencing on or after 1 January 2019)
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (mandatory for the year commencing on or after 1 January 2019)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (mandatory for the year commencing on or after 1 January 2019)

Impact of the initial application of IFRS 16

In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 2. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

2. Accounting policies (continued)

Impact of the initial application of IFRS 16 (continued)

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Impact on lessee accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

(a) Recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);

(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other operating expenses' in profit or loss.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

2. Accounting policies (continued)

Impact of the initial application of IFRS 16 (continued)

Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the balance sheet on 1 January 2019 is 3.9%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the balance sheet at the date of initial application.

Impact on retained earnings as at 1 January 2019

	£'000
Operating lease commitments at 31 December 2018 (note 18)	1,314
Short-term leases and leases of low-value assets	(6)
Transfer of lease commitment from fellow subsidiary company	-
Effect of discounting the above amounts	(237)
Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments	469
Lease liabilities recognised at 1 January 2019	1,540

The Company has recognised £1,540,000 of right-of-use assets and £1,540,000 of lease liabilities upon transition to IFRS 16. The difference of £nil is recognised in retained earnings.

Going concern

In light of the Covid-19 pandemic, the Directors have considered the impact that has been experienced by the Company in recent months. The Directors have also performed and carefully considered a number of different forecast scenarios of varying severity to stress test the resilience of the Company. All scenarios provided sufficient comfort to the Directors.

At 31 December 2019, the Company had net assets of £32.2million. Having assessed the responses of FCC to their enquiries and reviewing projected cash flows and carefully considering the risks to the Company's trading performance and cash flows, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	2-50 years
Plant and machinery	3-10 years
Motor vehicles	4-7 years

Residual value is calculated on prices prevailing at the date of acquisition.

2. Accounting policies (continued)

Reclassification of comparative balances

Statement of comprehensive income

The Company has changed the format of its statement of comprehensive income for the year ended 31 December 2019 to more closely align it with the format adopted by FCC. As a result, the comparative amounts for cost of sales and administrative expenses have been re-categorised as follows:

	Year ended 31 December 2018 £'000
As previously presented	
Cost of sales	26,172
Administrative expenses	2,950
	29,122
As reclassified	
Staff costs	13,596
Other operating expenses	13,465
Depreciation and amortisation	2,121
Net impairment gains and gains on disposal of assets	(60)
	29,122

Balance sheet

In the 2019 annual report and financial statements, the Company has adopted an IAS 1 balance sheet format consistent with FCC E UK. Consequently, £16,011,000 of debtors due after one year previously reported under current assets, has been re-presented as other receivables under non-current assets. The Company has also re-presented £1,325,000 of accrued income from prepayments and accrued income into trade receivables for consistency with the 2019 presentation.

Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual future cash flows could vary from those estimated. Factors such as closure of facilities and declining volumes could result in shortened asset lives or impairment. Management review and update the discount rates used annually. The discount rates used may also have an impact on the estimation of future cash flows.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Investment income from investments in subsidiary and associate undertakings is included in profit and loss when dividends have been declared.

Stock

Stocks are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on purchase cost on a first-in, first-out basis, including transport. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to disposal. Provision is made for obsolete or defective items where appropriate.

2. Accounting policies (continued)

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost less any allowance for expected credit losses ('ECL').

The Company assesses lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast economic conditions including the time value of money where appropriate.

For all other financial instruments under the scope of IFRS 9, the Company recognises lifetime ECL when there has been a significant increase in risk since initial recognition. When estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis. The assessment is based on the Company's historical experience and includes forward-looking information. If the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to the 12–month ECL as defined below.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12–month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering the asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, deposits held at call with banks and other short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the balance sheet at cost. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost less any impairment losses.

Taxation

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- debtors and creditors are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of debtors or creditors in the balance sheet. Tax on the profit or loss for the year comprises current and deferred tax.

2. Accounting policies (continued)

Taxation (continued)

Current tax is the expected tax payable on the taxable surplus for the year using average tax rates in place during the financial year, and any adjustments in respect of previous periods. Income tax relating to items recognised directly in equity is recognised in equity and not in profit and loss.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is recognised for all temporary differences:

- in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue

Revenue comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business. Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date, revenue represents the value of the service provided to date based on a proportion of the total contract value. Where payments are received from customers in advance of services provided, the amounts are recognised as deferred income and included as part of creditors due within one year.

Employee benefits

The Company operated three defined benefit schemes during the year, being Cumbria, Worcestershire and Focsa Retirement Benefit Scheme. Certain employees of the Company are members of the schemes in which the Company is a participating employer, all the schemes are closed to new members. The schemes provide benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Company.

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a benefit to the Company, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

2. **Accounting policies (continued)**

Employee benefits (continued)

The movement in the scheme deficit is split between operating charges, finance items and actuarial gains and losses. Actuarial gains and losses are recognised in full as profit or loss within the statement of comprehensive income and expense in the period in which they occur.

In addition, the Company contributes towards the personal pension plans of certain categories of employees for which the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leases

The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within loans and borrowings in the balance sheet and detailed in the notes to the financial statements.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2. Accounting policies (continued)

Leases (continued)

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within the property, plant and equipment line in the balance sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other operating expenses' in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Policies applicable prior to 1 January 2019.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2. Accounting policies (continued)

Leases (continued)

The Company as a lessee

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. 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.

- Useful economic lives of tangible assets – The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note **Error! Reference source not found.** for the carrying amount of tangible fixed assets.

- Defined benefit scheme – The Company'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 most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

4. Revenue

All revenue was generated in the United Kingdom from the provision of refuse collection, street cleansing, grounds maintenance, management of civic amenity sites, transport maintenance, highways and winter maintenance services.

5. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation of property, plant and equipment – owned	**2,090**	1,840
Depreciation of right-of-use assets	**285**	-
Depreciation of property, plant and equipment – held under finance leases	**-**	281
Gain on disposal of fixed assets	**(139)**	(60)
Operating lease rentals	**-**	906
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**25**	28

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditor for 'Other services' as this information is included in the consolidated financial statements of the Company's fellow subsidiary, FCC Environment (UK) Limited, copies of which are available from the Company Secretary, Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG.

6. Staff costs

The average monthly number of employees (including executive directors) employed by the Company during the year was:

	2019 Number	2018 Number
Operational	**577**	521
Administration	**36**	33
	613	554

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	**13,935**	12,308
Social security costs	**1,153**	1,013
Pension costs (see note 19)	**762**	275
Other staff costs	**35**	-
	15,885	13,596

Notes to the financial statements
For the year ended 31 December 2019

7. Directors' remuneration and transactions

None of the Directors received any remuneration or other benefits through the Company during the year ended 31 December 2019 (2018: £nil).

They are remunerated as Directors or employees of the Company's fellow UK-domiciled subsidiary, FCC Environment (UK) Limited and it is not practical to allocate their remuneration to each subsidiary in the Group. The Directors received total remuneration of £639,000 for services to the UK Group as a whole in the year ended **31 December 2019** (2018: £647,000). Certain Directors were remunerated by fellow subsidiary companies of FCC without recharge to the UK Group.

8. Net interest income

a) Finance income

	2019	2018
	£'000	£'000
Interest on loans to group undertakings	**561**	593
Bank interest	**10**	11
Net interest on defined benefit obligations	**11**	17
	582	621

b) Finance expenses

	2019	2018
	£'000	£'000
Bank loans and overdrafts	**41**	29
Interest on lease liabilities	**38**	-
Finance leases and hire purchase contracts	**-**	41
	79	70

c) Net interest income

	2019	2018
	£'000	£'000
Finance income	**582**	621
Finance expenses	**(79)**	(70)
	503	551

Notes to the financial statements
For the year ended 31 December 2019

9. Tax on profit

The tax charge/(credit) comprises:

	2019 £'000	2018 £'000
Current tax		
United Kingdom corporation tax at 19% (2018: 19%) based on profits for the year	**(33)**	270
Adjustments in respect of prior years	**72**	(175)
Total current tax	**39**	95
Deferred tax		
Origination and reversal of timing differences	**63**	200
Adjustments in respect of prior years	**111**	(385)
Total deferred tax (see note 16)	**174**	(185)
Tax on profit	**213**	(90)
Total current and deferred tax charge/(credit) relating to items of other comprehensive income	**60**	(42)
	273	(132)

Finance Act 2016, which received Royal Assent in September 2016, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and 17% from 1 April 2020. As the deferred tax balances are expected to substantially reverse after April 2020, a deferred tax rate of 17% has been applied in both the current and previous financial year.

The Chancellor of the Exchequer announced on 11 March 2020 that the corporation tax rate will not be reduced from 1 April 2020 as set out in Finance Act 2016 and the rate of corporation tax would remain unchanged at 19%. As Finance Act 2020 has not yet gained Royal Assent, the rate of deferred tax used as at 31 December 2019 is 17%.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so.

Notes to the financial statements
For the year ended 31 December 2019

9. Tax on profit (continued)

The total tax charge/(credit) for both the current and previous year differs from the average standard rate of 19% (2018: 19%) for the reasons set out in the following reconciliation:

	2019 £'000	2018 £'000
Profit before tax	**10,876**	6,630
Tax on profit at average standard rate	**2,066**	1,260
Effects of:		
Non-taxable items	**(1,964)**	(965)
Adjustments to tax charge in respect of prior years	**111**	(385)
Total tax charge/(credit)	**213**	(90)

10. Property, plant and equipment

	Other property £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2019	537	1,675	24,059	26,271
Adjustments for IFRS 16	1,445	-	95	1,540
Additions	55	227	2,988	3,270
Disposals	(56)	(64)	(4,640)	(4,760)
Transfers between group companies/reclassifications	-	121	(123)	(2)
At 31 December 2019	1,981	1,959	22,379	26,319
Depreciation				
At 1 January 2019	378	862	15,072	16,312
Charge for the year	163	190	2,022	2,375
Disposals	(44)	(64)	(4,474)	(4,582)
Transfers between group companies/reclassifications	7	102	(111)	(2)
At 31 December 2019	504	1,090	12,509	14,103
Net book value				
At 31 December 2019	**1,477**	**869**	**9,870**	**12,216**
At 31 December 2018	159	813	8,987	9,959

Notes to the financial statements
For the year ended 31 December 2019

10. Property, plant and equipment (continued)

Right-of-use assets

The Company holds a number of long-term lease agreements for various sites and categories of asset as shown in the table. In the year ended 31 December 2018 they were classified as operating leases under IAS 17 and therefore have been reclassified to Other property as at 1 January 2019 in accordance with the transitional arrangements of IFRS 16 'Leases'.

No leases have expired in the financial period.

The value of right-to-use assets included in Property, plant and equipment is as follows:

	Other property £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2019	-	-	-	-
Adjustments for IFRS 16	1,445	-	95	1,540
Additions	-	-	993	993
At 31 December 2019	1,445	-	1,088	2,533
Depreciation				
At 1 January 2019	-	-	-	-
Charge for the year	148	-	137	285
At 31 December 2019	148	-	137	285
Net book value				
At 31 December 2019	1,297	-	951	2,248
Average remaining term (years)	6	-	3	

11. Investments

	Associates £'000	Subsidiary undertaking £'000	Total £'000
Cost and net book value			
At 1 January and 31 December 2019	175	83	258

Notes to the financial statements
For the year ended 31 December 2019

11. Investments (continued)

The Company directly holds investments in the following subsidiary and associated undertakings:

Name	Interest	Nature of business
Mercia Waste Management Limited	50% ordinary	Management of household and civic amenity waste
Severn Waste Services Limited	50% ordinary	Construction and operation of waste disposal facilities.
Telford & Wrekin Services Limited	100% ordinary	Transport and disposal of waste, street cleaning, grounds and highways maintenance.

All of the above companies are incorporated in England and Wales.

The address of the registered office of Mercia Waste Management Limited and Severn Waste Services Limited is The Marina, Kings Road, Evesham, Worcestershire, WR11 3XZ and the address of the registered office of Telford & Wrekin Services Limited is Granville House, St Georges Road, Donnington Wood, Telford, TF2 7RA.

12. Stock

	2019	2018
	£'000	£'000
Fuel	**220**	209

There is no material difference between the balance sheet value of stock and their replacement cost.

13. Trade and other receivables

	2019	2018
	£'000	£'000
Current		
Trade receivables - gross	**5,648**	2,023
Allowance for expected credit loss	**(51)**	(51)
Trade receivables - net	**5,597**	1,972
Amounts owed by fellow subsidiary undertakings	**-**	8,097
Prepayments	**702**	261
	6,299	10,330
Non-current		
Amounts owed by fellow subsidiary undertakings	**24,511**	15,987
Other receivables	**-**	24
	24,511	16,011

Current amounts owed by FCC group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Non-current amounts owed by FCC group undertakings are unsecured and comprise £8,150,000 bearing interest at a fixed rate of 2.285% and repayable on 30 September 2024 and a further balance of £16,361,000 bearing interest at a fixed rate of 2.75% and repayable on 31 December 2024.

Notes to the financial statements
For the year ended 31 December 2019

14. Trade and other payables

	2019 £'000	2018 £'000
Obligations under finance leases and hire purchase contracts (see note 15)	-	63
Amounts owed to fellow subsidiary undertakings	8,117	3,874
Trade payables	6	3
Corporation tax	-	780
Other taxation and social security	325	496
Accruals and deferred income	2,907	3,585
	11,355	8,801

Amounts owed to FCC group undertakings due within one year are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15. Loans and borrowings

	2019 £'000	2018 £'000
Non-current		
Lease liabilities*	1,979	-
Current		
Lease liabilities*	310	-
Finance leases *(included within Trade and other payables per note 14 above)*	-	63
	310	63
Maturity profile		
Due within one year	310	63
Between one and five years	1,035	-
Due after more than five years	944	
	2,289	63

Disclosure required by IAS 17

	2018 £'000
Amounts payable under finance leases:	
Not later than one year	65
Less: future finance charges	(2)
	63

* The lines indicated are in respect of the application of IFRS 16 in the current year only. In the previous year the Company's lease agreements were accounted for as operating leases under IAS 17 and are shown in note 18.

At 31 December 2019, the Company is committed to £nil for short-term leases.

Notes to the financial statements
For the year ended 31 December 2019

16. Deferred tax asset

	Deferred tax asset £'000	Pension related liability £'000	Total £'000
At 1 January 2019	655	(9)	646
Charged to profit and loss	(175)	1	(174)
Charged directly in equity	-	(60)	(60)
At 31 December 2019	**480**	**(68)**	**412**

Deferred tax balance is as follows:

	2019 £'000	2018 £'000
Depreciation in excess of capital allowances	**461**	636
Deferred tax relating to defined benefit pension schemes	**(68)**	(9)
Other timing differences	**19**	19
	412	646

17. Called-up share capital and reserves

	2019 £'000	2018 £'000
Allotted, called-up and fully-paid		
9,300,000 ordinary shares of £1 each	**9,300**	9,300

The company has one class of ordinary shares which carry no right to fixed income.

Retained earnings

The retained earnings account comprises cumulative profits or losses, including unrealised profits or losses recognised in the statement of comprehensive income, net of dividends.

18. Financial commitments

The Company as a lessee

Disclosure required by IAS 17

At the reporting date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall as follows:

	2018
	£'000
Not later than one year	201
Later than one year and not later than five years	627
Later than five years	486
	1,314

Other commitments

Performance bonds of £1,698,000 (2018: £1,106,000) have been given in the normal course of business to certain customers.

19. Retirement benefit schemes

The Company operates a defined contribution scheme. The assets of the scheme are held separately from those of the Company in independently administered funds.

The total expense charged by the Company to the statement of comprehensive income in the year ended 31 December 2019 was £617,000 (2018: £75,000).

The Company operated three defined benefit schemes during the year, being Cumbria, Worcestershire and Focsa Retirement Benefit schemes.

The Cumbria and Worcestershire schemes are multi-employer schemes however the actuary has been able to separately identify the assets and liabilities attributable to the Company and accordingly these schemes have been accounted for as defined benefit schemes in accordance with IAS 19.

Actuarial valuations were carried out as at 31 December 2019 and 31 December 2018 by a qualified actuary using assumptions that are consistent with the requirements of IAS 19.

The scheme exposes the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

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. Currently the plan has a relatively balanced investment in equity securities, debt instruments and diversified growth funds. Due to the long-term nature of the plan liabilities, the trustees of the pension fund 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. If future investment returns are lower than assumed, the plan's assets will be lower and the funding level worse than expected.
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 benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. If

improvements in life expectancy are greater than assumed, the liabilities will increase because members are living longer than expected.

19. Retirement benefit schemes (continued)

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 most recent accounting actuarial valuations of the plan assets and the present value of the defined benefit liability were carried out at 31 December 2019 and 31 December 2018 by a qualified independent actuary. The present value of the defined benefit liability, and the related current service cost and past service cost, were measured using the projected unit credit method.

The year end asset is as follows:

	2019	2018
	£'000	£'000
Present value of funded defined benefit obligations	**(9,299)**	(8,831)
Fair value of plan assets	**10,009**	9,200
Restriction of surplus under IAS 19	**(312)**	(318)
Pension asset	**398**	51

Movements in the fair value of plan assets are as follows:

	2019	2018
	£'000	£'000
At 1 January	**9,200**	9,864
Interest on plan assets	**256**	245
Actuarial gains/(losses)	**858**	(716)
Contributions by employer	**145**	200
Contributions by member	**17**	20
Benefits paid	**(467)**	(413)
At 31 December	**10,009**	9,200

Notes to the financial statements
For the year ended 31 December 2019

19. Retirement benefit schemes (continued)

Movements in the present value of the defined benefit obligation are as follows:

	2019 £'000	2018 £'000
At 1 January	**8,831**	9,201
Current service cost	**114**	128
Interest cost	**244**	228
Contributions by members	**18**	21
Past service cost	**50**	20
Remeasurement losses/(gains): Actuarial losses/(gains) arising from changes in assumptions	**509**	(354)
Benefits paid	**(467)**	(413)
At 31 December	**9,299**	8,831

Expense recognised in statement of comprehensive income:

	2019 £'000	2018 £'000
Current service cost	**114**	129
Past service cost	**50**	20
Net interest income	**(11)**	(17)
Net benefit expenses	**153**	132

The expense is recognised in the following line items in the statement of comprehensive income:

	2019 £'000	2018 £'000
Staff costs	**164**	149
Finance income	**(11)**	(17)
Net benefit expense	**153**	132

19. Retirement benefit schemes (continued)

Amount recognised in other comprehensive income:

	2019 £'000	2018 £'000
Actual return less expected return on assets	**858**	(716)
Actuarial (losses)/gains arising from changes in assumptions	**(509)**	354
Actuarial gain/(loss)	**349**	(362)
Impact of restriction of surplus	**6**	115
	355	(247)

At 31 December 2019, the cumulative amount of actuarial gains recognised in the statement of comprehensive income and expense since 2014 (the earliest date at which figures prepared under FRS 101 are available) was £436,000 (2018: £137,000).

The fair value of the plan assets and the return on those assets were as follows:

	2019 £'000	2018 £'000
Equity instruments	**4,465**	4,377
Debt instruments	**1,372**	1,226
Property	**421**	423
Cash and cash equivalents	**167**	279
Other	**3,584**	2,895
	10,009	9,200
Actual return on plan assets	**1,167**	(472)

Virtually all equity and debt instruments have quoted prices in active markets.

The principal assumptions used in determining pension and post-employment benefit obligations for the Company's plans are shown below:

	2019	2018
Financial assumptions		
Discount rate	**2.0%**	2.8%
Rate of inflation (CPI)	**2.0%**	2.1%
Increase in salaries	**3.5%**	3.6%
Increase in pensions	**2.0%**	2.4%

19. Retirement benefit schemes (continued)

The life expectancy assumed in the calculations is based on the S2PA CMI 2018 (YOB) for non-manual/manual members respectively (2018: S2PA CMI 2017 (YOB)). Life expectancy assumptions for members from age 65 are set out below:

	2019		2018	
	Male	**Female**	Male	Female
Member aged 45 from age 65	**23.1**	**25.7**	23.5	26.1
Retired member aged 65	**22.1**	**24.3**	22.1	24.5

Employer contributions to the scheme in 2019 are expected to be £93,000 (2018: £137,000).

History of plan

	2019	2018	2017	2016	2015
	£'000	£'000	£'000	£'000	£'000
Present value of defined benefit obligations	**(9,299)**	(8,831)	(9,201)	(9,897)	(7,876)
Fair value of plan assets	**10,009**	9,200	9,864	9,631	7,564
Restriction of surplus under IAS 19	**(312)**	(318)	(433)	-	-
Surplus/(deficit)	**398**	51	230	(266)	(312)

The most significant assumption for the determination of the defined benefit obligation is the discount rate and other key assumptions included expected inflation and mortality. The sensitivity analyses below have been determined based on reasonably possible changes in the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

Cumbria and Worcestershire Schemes:

	Base 2019	Plus 0.1% discount rate	Plus 0.1% inflation rate	Plus 0.1% pay growth	1 year increase in life expectancy
Fair value of plan assets	**7,433**	6,928	6,928	6,928	6,928
Present value of benefit obligations	**(7,272)**	(6,752)	(6,963)	(6,868)	(7,001)
Restriction of surplus under IAS 19	**(312)**	-	-	-	-
(Deficit)/surplus	**(151)**	176	(35)	60	(73)

Notes to the financial statements
For the year ended 31 December 2019

19. Retirement benefit schemes (continued)

Focsa:

	Base 2019	Minus 0.25% discount rate	Plus 0.25% inflation rate	Plus 0.25% pay growth	1 year increase in life expectancy
Fair value of plan assets	**2,576**	2,272	2,272	2,272	2,272
Present value of benefit obligations	**(2,027)**	(2,083)	(2,079)	(1,978)	(2,019)
Surplus	**549**	189	193	294	253

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There has been no change in the processes used by the Company to manage its risks from prior periods.

The Company's employees pay a fixed percent of pensionable salary. The residual contribution (including back service payments) is paid by the Company. The funding requirements are based on a local actuarial measurement framework. In this framework the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increases (back-service liabilities) should be paid immediately to the scheme.

The average duration of the benefit obligation at the end of the reporting period is around 17 years (2018: 17 years).

20. Dividends per share

	2019 £'000	2018 £'000
Interim dividend paid of £1.11 per share (2018: £0.43 per share)	**10,322**	4,000

Notes to the financial statements
For the year ended 31 December 2019

21. Related party transactions

The Directors regard all subsidiaries of FCC as related parties. In the ordinary course of business, the Company has traded with fellow subsidiaries of FCC.

Under FRS 101, the company is exempt from disclosing related party transactions with other wholly owned subsidiaries of FCC.

Transactions with subsidiaries that are not wholly owned are as follows:

	Severn Waste Ltd £'000	Mercia Waste Ltd £'000
31 December 2019		
Purchases from subsidiary	.	84
Sales to subsidiary	1,140	-
Balance due from subsidiary	386	-
Balance owing to subsidiary	-	37
31 December 2018		
Purchases from subsidiary	.	-
Sales to subsidiary	1,045	-
Balance due from subsidiary	332	-
Balance owing to subsidiary	-	-

22. Post balance sheet event

The Covid-19 pandemic is a material non-adjusting event impacting the Group. Please see the principal risks and uncertainties section on page 3 and the going concern section in note 2 for details of the considerations and implications on the Company.

23. Controlling party

FCC Medio Ambiente, S.A., a company registered in Spain, owns 100% of the issued share capital of the Company and is the immediate parent entity.

The Directors regard Fomento de Construcciones y Contratas, S.A., a company registered in Spain, as the ultimate parent company. The ultimate controlling party is Inversora Carso S.A. de C.V., a company registered in Mexico.

Fomento de Construcciones y Contratas, S.A. is the parent company of the smallest and largest group of which the Company is a member and for which group financial statements are drawn up. Copies of the financial statements of Fomento de Construcciones y Contratas, S.A. are available from the Company Secretary, Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG. The registered office of Fomento de Construcciones y Contratas, S.A. is c/Balmes, 36. 08007 Barcelona, Spain