

Company Registration No. 02894377

Kent Enviropower Limited

**Annual report and financial statements
for the year ended 31 December 2017**



Kent Enviropower Limited

Annual report and financial statements 2017

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Kent Enviropower Limited

Annual report and financial statements 2017

Officers and professional advisers

Directors

P Taylor
V F Orts-Llopis
A Serrano Minchan

Company Secretary

C Nunn

Registered Office

Ground Floor West
900 Pavilion Drive
Northampton Business Park
Northampton
NN4 7RG

Auditor

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ
United Kingdom

Kent Enviropower Limited

Strategic report

The Directors present their strategic report on the affairs of Kent Enviropower Limited (“the Company”) for the year ended 31 December 2017.

Overview of Group

The Company is a subsidiary of FCC Environment (UK) Limited (“FCC E UK”) and its ultimate parent is Fomento de Construcciones y Contratas, S.A. (“FCC”). 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 Infrastructure.

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 both the position of the Company and its 43 subsidiaries (together the “Group” or “FCC E UK”) 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 and it 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 principal activity of the Company during the year ended 31 December 2017 was the operation and management of the EfW facility at Allington in Kent.

The activities, strategies and risks affecting the Company are inextricably similar to, and dependent on, those of the Group, and consequently it is appropriate that the following narrative applies to the Group in its entirety.

The Group is a key player within the municipal waste management sector, with over 60 Local Authority clients across England, Wales and Scotland.

The Group provides a diverse range of cost effective and sustainable waste processing, recycling, treatment, disposal and energy recovery services for Local Authority and private commercial customers. During 2017, the Group received, treated, recycled and disposed of 8.3million (2016: 8.6million) tonnes of household, commercial and industrial waste and managed around 200 waste management facilities. Through innovative solutions, the Group is committed to working with its Local Authority partners and industrial and commercial customers to respond to often complex and far-reaching waste management strategies, to meet the challenges of increased regulation from the UK and EU, and to improve upon waste management targets.

Kent Enviropower Limited forms part of the Green Energy+ Division of FCC E UK which manages EfW plants at Eastcroft in Nottingham (producing steam), North Hykeham in Lincolnshire (producing electricity for export) as well as the Company’s facility at Allington in Kent (producing electricity for export).

Kent Enviropower Limited

Strategic report

Business review

The Directors consider that the Company's business performance was satisfactory during 2017.

Results, dividends and key performance indicators

The results for the year ended 31 December 2017 are set out on page 10. The loss for the financial year ended 31 December 2017 amounted to £3.5million (2016: £8.6million profit). The result reflects continued strong performance of the Company's Allington EfW plant, offset by a one-off £13.1m finance charge resulting from the early settlement of the Company's interest rate swaps. The Company did not pay an interim dividend during the year (2016: £nil) and furthermore, the Directors do not recommend the payment of a final dividend (2016: £nil). The loss (2016: profit) for the financial year has been withdrawn from (2016: transferred to) reserves. Other comprehensive income for the year ended 31 December 2017 was £10.2m, arising from the recycling of the cash flow hedging reserve upon settlement of the Company's interest rate swaps. Therefore, total equity increased by £6.7m in the year ended 31 December 2017.

For the year ended 31 December 2017, turnover from continuing activities decreased by 2.7% to £56.0million (2016: £57.6million). This reflects a slight reduction in tonnage volumes processed by the Allington EfW plant in the year, although such levels remain high.

FCC E UK manages its operations on a divisional basis and information regarding key performance indicators is included within the FCC E UK 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 E UK annual report can be obtained from the address in note 16.

Future developments

The Directors consider that the waste industry continues to be a rapidly changing and complex environment, due to the prevailing budgetary conditions of the municipal sector and the need to satisfy growing demand for more sophisticated services.

In the context of the fact that the Government has triggered Article 50 to leave EU ("Brexit") and is promoting stability and growth through investment in infrastructure as seen in the 25-year Environment Plan, the Board believes that greater clarity is needed on law, regulations and targets in our sector. In the meantime, the Board continues to focus the Group's strategy on leveraging value from its existing assets where possible and ensuring that it offers best value, quality services through sustainable waste management for 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.

Principal risks and uncertainties

Operating in the UK's highly regulated waste management market presents 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:

- **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.

Kent Enviropower Limited

Strategic report

Principal risks and uncertainties (continued)

- **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 has impacted pricing of Refuse Derived Fuel (RDF) exports into mainland Europe. 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.
- **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.

Kent Enviropower Limited

Strategic report

Principal risks and uncertainties (continued)

- **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.

Credit and liquidity risk

The Company's exposure to credit and liquidity risk is reduced as it is a wholly owned subsidiary of FCC E UK. Liquidity and credit risk is mitigated by the nature of the debtor balances owed, being mainly inter-group or due from local authority customers.

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.

Interest rate risk

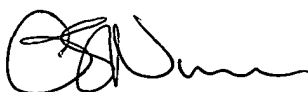
The Company's exposure to interest rate risk is managed by using a mix of fixed and variable rate debt. To manage this mix in a cost effective manner, the Company uses interest rate swaps. Full details of the accounting policy in respect of financial instruments are given in note 2 to the financial statements.

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 the accounting policies in the financial statements.

Approved by the Board and signed on its behalf by:



C Nunn
Company secretary

26 April 2018

Kent Enviropower Limited

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2017. 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 2017 and up to the date of this report:

P Taylor
V F Orts-Llopis
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 3.

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 like to thank all employees for their hard work, dedication and loyalty during the year.

FCC E UK is 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 Group has a structured training and development programme and is fully committed to ensuring that all employees have the necessary skills and knowledge to do their jobs effectively. Subject to the nature of its businesses in the waste management industry, the policy of the Group is to ensure that there are fair opportunities for the employment, career development and training of disabled persons.

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 addition, the executive management regularly report on the Group's successes and performance to the entire Group via a monthly brief delivered by local management and announcements on the Group Intranet. An in-house magazine is also published on a regular basis.

In 2017 the company undertook a major workplace wellbeing programme which will continue indefinitely. This included taking part in specific national health campaign weeks, in-house campaigns and monthly workplace wellbeing bulletins.

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 the Group's internal reporting system. In addition, FCC E UK has engaged an independent confidential reporting (whistleblowing) service that employees can access should they feel uncomfortable in approaching management.

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.

Kent Enviropower 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.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as directors in order to make themselves 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 s418 of the Companies Act 2006.

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 and signed on its behalf by:



C Nunn
Company secretary

26 April 2018

Kent Enviropower Limited

Independent auditor's report to the members of Kent Enviropower Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss 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 of Kent Enviropower Limited (the 'company') which comprise:

- the statement of comprehensive income and expense;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 16.

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 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.

Kent Enviropower Limited

Independent auditor's report to the members of Kent Enviropower 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Kent Enviropower Limited

Independent auditor's report to the members of Kent Enviropower Limited

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.

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.



Makhan Chahal (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

30th April 2018

Kent Enviropower Limited

Statement of comprehensive income For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Turnover	4	56,049	57,588
Cost of sales		(39,543)	(39,685)
Gross profit		16,506	17,903
Administrative expenses		(1,098)	(1,084)
Operating profit		15,408	16,819
Interest receivable and similar income	7	7	984
Interest payable and similar charges	7	(19,984)	(9,659)
(Loss)/profit before taxation	5	(4,569)	8,144
Tax credit on (loss)/profit	8	1,021	473
(Loss)/profit for the financial year		(3,548)	8,617
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of hedging interest rate swap		12,281	(1,793)
Tax relating to items that may be reclassified		(2,063)	191
Total comprehensive income for the year		6,670	7,015

All results in the year ended 31 December 2017 relate to continuing operations.

The notes on pages 14 to 24 are an integral part of these financial statements.

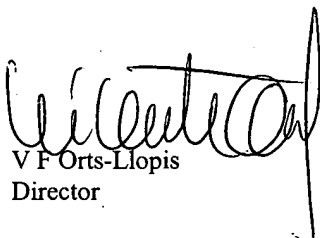
Kent Enviropower Limited

Balance sheet As at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	9	<u>132,230</u>	<u>136,360</u>
Current assets			
Trade and other debtors	10	15,926	17,161
Cash and cash equivalents		<u>7,836</u>	<u>21,696</u>
		23,762	38,857
Current liabilities			
Trade and other creditors	11	(16,580)	(15,839)
Borrowings	12	<u>(4,500)</u>	<u>(9,202)</u>
		(21,080)	(25,041)
Net current assets		<u>2,682</u>	<u>13,816</u>
Total assets less current liabilities		<u>134,912</u>	<u>150,176</u>
Non-current liabilities			
Borrowings	12	(124,086)	(147,092)
Provisions for liabilities	13	<u>(14,495)</u>	<u>(13,423)</u>
Net liabilities		<u>(3,669)</u>	<u>(10,339)</u>
Capital and reserves			
Called-up share capital	14	100	100
Cash flow hedging reserve		-	(10,218)
Profit and loss account		<u>(3,769)</u>	<u>(221)</u>
Total equity		<u>(3,669)</u>	<u>(10,339)</u>

The notes on pages 14 to 24 are an integral part of these financial statements.

The financial statements of Kent Enviropower Limited, registered number 02894377 were approved by the Board of Directors and authorised for issue on 26 April 2018. They were signed on its behalf by:


V F Orts-Llopis
Director

Kent Enviropower Limited

Statement of changes in equity For the year ended 31 December 2017

	Called-up share capital £'000	Cash flow hedging reserve £'000	Profit and loss account £'000	Total £'000
Year ended 31 December 2017				
At 1 January 2017	100	(10,218)	(221)	(10,339)
<i>Other comprehensive income/(expense)</i>				
Change in fair value of hedging interest rate swap	-	12,281	-	12,281
Tax related to losses recognised in equity	-	(2,063)	-	(2,063)
<i>Comprehensive income</i>				
Loss for the year	-	-	(3,548)	(3,548)
At 31 December 2017	100	-	(3,769)	(3,669)
Year ended 31 December 2016				
At 1 January 2016	100	(8,616)	(8,838)	(17,354)
<i>Other comprehensive income/(expense)</i>				
Change in fair value of hedging interest rate swap	-	(1,793)	-	(1,793)
Tax related to gains recognised in equity	-	191	-	191
<i>Comprehensive income</i>				
Profit for the year	-	-	8,617	8,617
At 31 December 2016	100	(10,218)	(221)	(10,339)

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

1. Corporate information

Kent Enviropower Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act, 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 Kent Enviropower 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 IFRS 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 E group accounts, copies of which are available from its registered office at Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IAS 7 (January 2016) – Disclosure initiative
- Amendments to IAS 12 (January 2016) – Recognition of deferred tax for unrealised losses
- Annual Improvements to IFRSs 2014 - 2016 Cycle (December 2016) (IFRS 12 Amendments)

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

2. Accounting policies (continued)

New international accounting standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following new or amended IFRS accounting standards and interpretations, which have not yet been adopted by the Group, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- IFRIC 23 – Uncertainty Over Income Tax Treatments
- Annual Improvements to IFRSs 2014 - 2016 Cycle (December 2016) (IFRS 1 and IAS 28 Amendments)
- Annual Improvements to IFRSs 2015-2017 Cycle (December 2017)
- Amendments to IFRS 10 and IAS 28 (September 2014) – Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 28 (October 2017) – Long term interests in associates and joint ventures
- Amendments to IAS 19 (February 2018) – Plan amendment, curtailment and settlement

The Directors do not expect that the adoption of the aforementioned standards and interpretations will have a material impact on the financial statements of the Company in future periods.

Going concern

The Company has a project facility of £41.0million (2016: £60.9million), the terms of which include a number of covenants. The counterparty to the project facility changed from external lenders to FCC during the year ended 31 December 2017. There were no breaches of covenants during 2017 and the Directors are satisfied that the Company will continue to meet its banking obligations. At 31 December 2017, the Company had net liabilities of £3.7million. However, the Company held £7.8million in cash and longer term financial forecasts show the Company being profitable. The Directors therefore have reviewed projected cash flows and carefully considered the risks to the Company's trading performance and cash flows, and continue to adopt the going concern basis in preparing the annual report and financial statements.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation has been provided on the plant and machinery over its expected useful life, which is calculated from the volume of waste processed as a proportion of plant capacity.

No depreciation is provided for on freehold land.

Capitalisation of finance costs

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

2. Accounting policies (continued)

Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

Derivative financial instruments

The Company uses derivative financial instruments, including interest rate swaps, to hedge specific risks associated with interest rate fluctuations. Such derivative financial instruments are recognised initially at fair value.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the instrument at the balance sheet date. The gain or loss on re-measurement is recognised in profit or loss other than where hedge accounting can be applied.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction that is highly probable.

The Company does not have any fair value hedges.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

Cash flow hedges

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For a cash flow hedge, any cumulative gain or loss on the hedging instrument which has been recognised in equity is retained in equity until the forecast transaction occurs.

If a hedged transaction in a cash flow hedge is no longer expected to occur, the net cumulative gain or loss on the hedging instrument recognised in equity is transferred immediately to profit or loss. For a fair value hedge, where the hedged item is an interest bearing asset or liability, the related fair value adjustment is amortised to profit or loss over the period to maturity (subject to impairment or the derecognition of the related asset or liability). Where the hedged asset or liability is not interest bearing, it is retained at its adjusted amount, subject to impairment, until it is disposed of.

Trade and other debtors

Trade and other debtors, excluding derivative assets are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost less any allowance for doubtful debts. Trade debtors, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

2. Accounting policies (continued)

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 creditors

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

Taxation

Turnover, 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.

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 the income statement.

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:

- except where the deferred income tax liability arises from the initial recognition of goodwill, non-tax deductible goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- 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.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

2. Accounting policies (continued)

Turnover

Turnover is stated net of value added tax and trade discounts. Turnover 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. Turnover is recognised in respect of waste disposal services when the waste has been received and in respect of sale of electricity, when the electricity has been transferred to the national grid. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

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 9 for the carrying amount of tangible fixed assets.

4. Turnover

All turnover was generated in the United Kingdom principally from the operation and management of the EfW facility at Allington in Kent.

5. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging:

	2017	2016
	£'000	£'000
Depreciation of tangible fixed assets - owned	7,084	5,545
Fees payable to the Company's auditor for the audit of the Company's financial statements	5	5

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 FCC E UK, copies of which are available from the address given in note 16.

6. Directors' remuneration and transactions

None of the Directors received any remuneration or benefits from the Company during the year ended 31 December 2017 (2016: £nil). They are remunerated as directors or employees of the Company's parent company, FCC E UK for services to the Group as a whole and as such it is not possible to directly attribute any element of their remuneration to services as a director of this Company. The Directors received total remuneration of £637,000 for services to the Group as a whole in the year ended 31 December 2017 (2016: £578,000). Certain Directors were remunerated by fellow subsidiary companies of FCC without recharge to the Group.

The Company had no employees during the current or previous financial year.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

7. Net interest expense

a) Interest receivable and similar income

	2017 £'000	2016 £'000
Bank deposit interest receivable	7	59
Ineffectiveness on derivatives designated as cash flow hedges	-	925
	<u>7</u>	<u>984</u>

b) Interest payable and similar charges

	2017 £'000	2016 £'000
Interest on bank loans	(14,872)	(5,185)
Interest on intercompany loans	(5,112)	(4,474)
	<u>(19,984)</u>	<u>(9,659)</u>

Interest payable on bank loans includes an exceptional charge of £13,069,000 (2016: £nil) relating to the early settlement of the Company's interest rate swaps, resulting from the repayment of the Company's bank loans in July 2017 (note 12).

c) Net interest expense

	2017 £'000	2016 £'000
Interest receivable and similar income	7	984
Interest payable and similar charges	(19,984)	(9,659)
	<u>(19,977)</u>	<u>(8,675)</u>

8. Tax on (loss)/profit

The tax credit comprises:

	2017 £'000	2016 £'000
Current tax		
United Kingdom corporation tax at 19.25% (2016: 20.00%) based on (loss)/profit for the year	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	(2)	319
Adjustment in respect of prior years	(1,019)	(792)
Total deferred tax	<u>(1,021)</u>	<u>(473)</u>
Tax on (loss)/profit	<u>(1,021)</u>	<u>(473)</u>

Finance Act 2016, which was substantively enacted 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. Accordingly, deferred tax balances have been calculated using a rate of 17% in these financial statements.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

8. Tax on (loss)/profit (continued)

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

The total tax credit/(charge) for both the current and previous year differs from the average standard rate of 19.25% (2016: 20.00%) for the reasons set out in the following reconciliation:

	2017 £'000	2016 £'000
(Loss)/profit before tax	(4,569)	8,144
Tax (credit)/charge on profit on ordinary activities at average standard rate	(880)	1,627
Effects of:		
Non-taxable items	106	46
Group relief surrendered/(claimed)	772	(1,236)
Utilisation of previously unrecognised tax losses	-	(118)
Adjustment in respect of prior years	(1,019)	(792)
Total tax credit	(1,021)	(473)

9. Tangible fixed assets

	Plant and machinery £'000	Land £'000	Total £'000
Cost			
At 1 January 2017	168,517	10,000	178,517
Additions	2,954	-	2,954
At 31 December 2017	171,471	10,000	181,471
Depreciation			
At 1 January 2017	42,157	-	42,157
Charge for the year	7,084	-	7,084
At 31 December 2017	49,241	-	49,241
Net book value			
At 31 December 2017	122,230	10,000	132,230
At 31 December 2016	126,360	10,000	136,360

The cost of financing the expenditure relating to the construction of the Allington EfW Facility prior to its opening date has been included in the cost of the project. Included in fixed assets is capitalised interest with a net book value of £14,325,000 (2016: £15,168,000). Depreciation during the year in respect of this interest amounted to £843,000 (2016: £672,000).

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

10. Trade and other debtors

	2017 £'000	2016 £'000
<i>Amounts falling due within one year:</i>		
Trade debtors	3,777	4,778
Amounts owed from fellow subsidiary undertakings	10,919	10,919
Prepayments and accrued income	967	1,003
Other taxes and social security	263	461
	<u>15,926</u>	<u>17,161</u>

Amounts owed from fellow subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

11. Trade and other creditors

	2017 £'000	2016 £'000
<i>Amounts falling due within one year:</i>		
Trade creditors	76	24
Amounts owed to fellow subsidiary undertakings	15,692	13,230
Other creditors	-	1,055
Accruals and deferred income	812	1,530
	<u>16,580</u>	<u>15,839</u>

Amounts owed to fellow subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

12. Loans and borrowings

	Effective interest rate %		2017 £'000	2016 £'000
	2017	2016		
Current liabilities				
Bank loans	n/a	3.1%	-	6,757
Amounts due to ultimate parent undertaking – FCC S.A.	2.9%	n/a	4,500	-
Interest rate swap	n/a	n/a	-	2,445
			<u>4,500</u>	<u>9,202</u>
Non-current liabilities				
Bank loans	n/a	3.1%	-	54,127
Amounts due to ultimate parent undertaking – FCC S.A.	2.9%	n/a	36,500	-
Amounts due to immediate parent undertaking – Kent Energy Limited	12.5%	12.5%	46,778	44,625
Other unsecured loan from related party – Enviropower Investments Limited	12.5%	12.5%	40,808	38,504
Interest rate swap	n/a	n/a	-	9,836
			<u>124,086</u>	<u>147,092</u>
Maturity profile				
Within one year or on demand			4,500	9,202
Between one and two years			5,743	7,725
Between two and five years			20,032	23,325
More than five years			98,311	116,042
			<u>128,586</u>	<u>156,294</u>

The bank loans at 31 December 2016 were secured against the Company's EfW facility at Allington. This facility was repaid in full in July 2017 and alternative funding was attained in the form of an equivalent intercompany loan arrangement with the ultimate parent company, FCC S.A., with the same terms and repayment profile as the original facility. Consequently, the related interest rate swaps were also settled in full in July 2017. The intercompany loan is repayable by instalments with the final repayment due 31 March 2027. Interest is payable on the loan at a rate of 2.38% above LIBOR.

The Loan Agreement dated 31 March 2004 between the Company and Kent Energy Limited for a principal amount of £17,205,084 provides for the payment of interest by the Company to Kent Energy Limited at a non-compounding interest rate of 12.5% per annum. On 18 April 2008, this loan agreement was amended and is now repayable in full on 31 March 2030.

On 18 April 2008, an amended loan agreement between the Company and Enviropower Investments Limited was signed. This amended agreement provides that this loan is also now repayable in full on 31 March 2030 and bears interest at a non-compounding fixed rate of 12.5%. The Subordinated Facility Agreement (the "Subordinated Facility") dated 29 March 2004 between the Company and Enviropower Investments Limited ("EIL") for a principal amount of £14,243,141 provided for the payment of interest by the Company to EIL at a rate payable by EIL under a term Facility Agreement (the "Facility") dated 29 March 2004.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

13. Provisions for liabilities

Deferred tax

Deferred tax is provided as follows:

	Provided	
	2017	2016
	£'000	£'000
Accelerated capital allowances	14,495	15,510
Hedging interest rate swap	-	(2,087)
	<u>14,495</u>	<u>13,423</u>

The Company has no unprovided deferred tax assets in either the current or previous financial year.

14. Called-up share capital and reserves

	2017	2016
	£'000	£'000
Called up, allotted and fully paid		
100,002 ordinary shares of £1 each	<u>100</u>	<u>100</u>

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

The entire issued share capital of the Company of 100,002 ordinary shares of £1 each is charged to The Royal Bank of Scotland PLC pursuant to a legal mortgage created by a Security Agreement dated 31 March 2004 between Kent Energy Limited and The Royal Bank of Scotland plc. Under this Security Agreement and prior to any security becoming enforceable in accordance with the terms set out therein, Kent Energy Limited controls the voting rights in respect of the issued shares in the Company and is therefore the Company's immediate parent undertaking.

Other reserves

The profit and loss reserve comprises cumulative profits or losses, including unrealised profits or losses recognised in the statement of comprehensive income and expense, net of dividends.

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, net of any related deferred tax.

15. 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.

Kent Enviropower Limited

Notes to the financial statements For the year ended 31 December 2017

16. Controlling party

The immediate parent of the Company is Kent Energy Limited, a company registered in England and Wales.

The Directors regard Fomento de Construcciones y Contratas, S.A., a company registered in Spain, as the ultimate parent company and controlling party.

Fomento de Construcciones y Contratas, S.A. is the parent company of the largest group of which the Company is a member and for which group financial statements are drawn up. FCC Environment (UK) Limited is the parent company of the smallest group of which the Company is a member and for which group financial statements are drawn up. Copies of the financial statements of both FCC Environment (UK) Limited and 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.