Company Registration No. 05663734

RE3 Limited

Annual report and financial statements

for the year ended 31 December 2015

RE3 Limited

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Officers and professional advisers

Directors

P Taylor
V F Orts-Llopis

Company Secretary

C Nunn

Registered Office

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

Auditor

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

RE3 Limited

Strategic report

The Directors present their strategic report on the affairs of RE3 Limited ("the Company") for the year ended 31 December 2015.

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 Infrastructure.

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 both 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 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 Group's strategy is to "Own the Waste" and to maximise the value of resource, produce renewable energy and provide 360° solutions to its customers. The Directors see 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 considerable activity and deployment of Group resources into recycling facilities, renewable energy projects, the development of innovative waste treatment solutions and the provision of regional facilities. The Directors remain of the view that Energy from Waste ("EfW") will be a key component of 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.

Principal activities

The principal activity of the Company during the year ended 31 December 2015 was the provision of waste management services under a Public Finance Initiative ("PFI") contract for Reading Borough Council, Bracknell Forest Borough Council and Wokingham District Council (the "Councils"), known as the RE3 Waste partnership (the "RE3 Waste Partnership").

The RE3 Waste Partnership is a 25 year, £600million joint waste contract between the Company and the Councils (the "RE3 Contract") aimed at further reducing reliance on landfill whilst boosting recycling rates and seeking to deliver a long-term sustainable solution for the Councils' waste.

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 65 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 2015, the Group received, treated, recycled and disposed of 8.6million (2014: 8.4million) 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.

RE3 Limited

Strategic report

Business review

The Directors consider that the Company's business performance remained satisfactory during 2015.

Commentary on the Company's results is set out in the Results, dividends and key performance indicators section.

Results, dividends and key performance indicators ("KPI's")

The results for the year ended 31 December 2015 are set out on page 10. The profit for the financial year ended 31 December 2015 amounted to £439,000 (2014: £703,000). The Directors do not recommend the payment of a final dividend (2014: £nil) for the year under review following an interim dividend of £620,000 (2014: £nil). The profit for the financial year has been transferred to reserves (2014: transferred to reserves), resulting in a corresponding decrease (2014: decrease) in total shareholder's deficit in the year.

For the year ended 31 December 2015, turnover from continuing activities decreased by 2.7% to £23.5million (2014: £24.1million). The result reflects a slight reduction in municipal tonnages from the RE3 contract.

Cash at 31 December 2015 was £7,477,000 (2014: £7,095,000), this increase reflects net cash inflows from operating activities.

At 1 January 2014, the company transitioned to FRS 102 from previously extant UK Generally Accepted Accounting Practice. The effects of the change on financial position and financial performance are reported in note 20 to the financial statements.

Financial and Non-Financial KPIs

To help deliver the contract and to assist in managing operational performance of the business, the following KPI's have been identified to monitor performance in certain key areas:

- Debt Cover Ratios – The Credit Facility Agreement, between the Company and NIBC Bank NV, requires that the Company manage various Debt Cover Ratios within certain given limits. The Company is obliged to forecast, monitor and report against these ratios on a bi-annual basis following completion of construction of the project in 2009. The company has comfortably met all Debt Cover Ratios to date and is currently forecasting compliance with the Credit Facility requirements in all future periods.
- Site Availability – Site availability is a key element of the RE3 Contract service provision and is of paramount importance to the Councils. As a result, the availability of key sites to both members of the public and customer authorised vehicles is subject to significant financial and performance penalties and is a key performance standard to monitor and report on. Penalties remain at a low level on the project, the total financial penalties against site availability standards during 2015 being £9,165 (2014: £14,059), this consisting of turnaround failures for council vehicles remaining on site for longer than twenty minutes. There were no financial penalties for the sites being totally unavailable.
- Waste Management Performance – The Company is required to meet targets for the effective processing of compostable and recyclable materials. Performance against these targets is measured within and linked to the payment mechanism of the RE3 Contract with the RE3 Waste Partnership and therefore represents a key indicator of both the operational and financial performance of the business. In 2015 the Company exceeded the relevant targets albeit with a slight year on year decrease in overall Municipal Solid Waste ("MSW") tonnage at RE3 to 195,261 tonnes (2014: 202,088 tonnes). The overall levels of recycling and composting for 2015 were 6% lower than 2014 and the overall levels of recovery were 3% lower than 2014.

Future developments

The waste industry continues to be under 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. The Directors continue to focus the Group's strategy on leveraging value from its existing assets 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.

RE3 Limited

Strategic report

Future developments (continued)

The Group will also continue to pursue its stated strategy of owning the waste, maximising the value of resource and the investment in alternative waste treatment infrastructure and energy recovery technology as set out in the Overview of Group.

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 Director'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. The Group is working on the development of a new business continuity plan under the control of FCC E UK's IMS that will be designed around the British Standard 25999.

- **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. 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.

RE3 Limited

Strategic report

Principal risks and uncertainties (continued)

- **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.
- **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. 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
7 September 2016

RE3 Limited

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2015.

Directors

The following individuals served as Directors of the Company during the year ended 31 December 2015 and up to the date of this report:

P Taylor
V F Orts-Llopis
M R W Tipton (resigned 15 May 2015)

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 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 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.

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.

RE3 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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
7 September 2016

Independent auditor's report to the members of RE3 Limited

We have audited the financial statements of RE3 Limited for the year ended 31 December 2015 which comprise of the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Independent auditor's report to the members of RE3 Limited

Matters on which we are required to report by exception

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

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

Makhan Chahal

Makhan Chahal (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

9th September 2016

Statement of comprehensive income
Year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Turnover	4	**23,487**	24,134
Cost of sales		**(17,219)**	(17,615)
Gross profit		**6,268**	6,519
Administrative expenses		**(3,687)**	(3,052)
Operating profit		**2,581**	3,467
Interest receivable and similar income	7	**96**	15
Interest payable and similar charges	7	**(2,339)**	(2,710)
Profit on ordinary activities before taxation	5	**338**	772
Tax on profit on ordinary activities	8	**101**	(69)
Profit for the financial year		**439**	703
Other comprehensive income/(expense) for the year:			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of hedging interest rate swap		**724**	(778)
Tax relating to items that may be reclassified		**(238)**	156
Total comprehensive income for the year		**925**	81

All results in the year ended 31 December 2015 relate to continuing operations.

The notes on pages 13 to 27 are an integral part of these financial statements.

RE3 Limited

Balance sheet
at 31 December 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Tangible assets	9	**24,541**	26,083
Deferred tax asset	14	**831**	1,084
		25,372	27,167
Current assets			
Debtors: amounts due within one year	10	**6,888**	6,466
Debtors: amounts due after more than one year	10	**1,500**	1,500
Cash and cash equivalents		**7,477**	7,095
		15,865	15,061
Creditors: amounts falling due within one year	11	**(9,488)**	(8,874)
Net current assets		**6,377**	6,187
Total assets less current liabilities		**31,749**	33,354
Creditors: amounts falling due after more than one year	12	**(34,346)**	(36,157)
Provisions for liabilities	14	**(805)**	(904)
Net liabilities		**(3,402)**	(3,707)
Capital and reserves			
Called-up share capital	15	**10**	10
Cash flow hedging reserve		**(3,578)**	(4,064)
Profit and loss account		**166**	347
Total shareholder's deficit		**(3,402)**	(3,707)

The notes on pages 13 to 27 are an integral part of these financial statements.

The financial statements of RE3 Limited, registered number 05663734 were approved by the Board of Directors and authorised for issue on 7 September 2016. They were signed on its behalf by:

V F Orts-Llopis
Director

RE3 Limited

Statement of changes in equity at 31 December 2015

	Called-up share capital £'000	Cash flow hedging reserve £'000	Profit and loss account £'000	Total £'000
Year ended 31 December 2015				
At 1 January 2015	10	(4,064)	347	(3,707)
Other comprehensive income/(expense)				
Change in fair value of hedging interest rate swap	-	724	-	724
Tax related to gains recognised in equity	-	(238)	-	(238)
Comprehensive income				
Profit for the year	-	-	439	439
Dividends	-	-	(620)	(620)
At 31 December 2015	**10**	**(3,578)**	**166**	**(3,402)**
Year ended 31 December 2014				
At 1 January 2014 (as previously reported)	10	-	(356)	(346)
Effect of transition to FRS 102	-	(3,442)	-	(3,442)
At 1 January 2014	10	(3,442)	(356)	(3,788)
Other comprehensive income/(expense)				
Change in fair value of hedging interest rate swap	-	(778)	-	(778)
Tax related to losses recognised in equity	-	156	-	156
Comprehensive income				
Profit for the year	-	-	703	703
At 31 December 2014	**10**	**(4,064)**	**347**	**(3,707)**

Notes to the financial statements
For the year ended 31 December 2015

1. **Corporate information**

RE3 Limited is a company incorporated in the United Kingdom under the Companies Act. 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 102 (FRS 102) issued by the Financial Reporting Council.

The Company has transitioned to FRS 102 from previously extant UK Generally Accepted Accounting Practice for all periods presented. The impact of material adjustments arising from the transition are disclosed in note 20.

The functional and presentational currency of RE3 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 102

RE3 Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to presentation of a cash-flow statement, related party transactions, financial instruments, remuneration of key management personnel and the reconciliation of shares outstanding at the beginning and end of the period.

Service concession arrangements

The Company has claimed exemption from the requirement to apply paragraphs 34.12E to 34.16A to service concession arrangements that were entered into before the date of transition to FRS 102. Such service concession arrangements continue to be accounted for using the same accounting policies being applied at the date of transition to FRS 102.

Going concern

The Directors have reviewed the Company's supply chain and do not believe that any specific risk has been identified. The Directors also considered the ability of the RE3 Waste Partnership to continue to make payments due under the RE3 Contract to the Company and do not consider this to be a material risk.

The Company's forecasts and projections show that the Company expects to be able to continue to operate for the full term of the concession, currently ceasing in 2032. Accordingly, the Directors consider it appropriate to continue to prepare the financial statements on the going concern basis.

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 at the point that costs are incurred in receiving and treating the waste. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors.

Notes to the financial statements
For the year ended 31 December 2015

2. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost. Depreciation is provided on tangible fixed assets in use at rates calculated to write off the cost less residual value of assets as follows:

Waste treatment assets (including bid development costs)	- 25 years
Plant and machinery	- 3 to 10 years

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.

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.

2. **Accounting policies (continued)**

Taxation (continued)

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.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Non-current debt instruments which meet the following conditions, are subsequently measured at amortised cost using the effective interest method:

(a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

2. **Accounting policies (continued)**

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and

Financial instruments (continued)

rewards of ownership of the financial asset, or c) the Group, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

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.

Derivative financial instruments

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.

Notes to the financial statements
For the year ended 31 December 2015

2. Accounting policies (continued)

Post-retirement benefits

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and the contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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 the property plant and equipment.
- Taxation - Estimates may be required in determining the level of current and deferred income tax assets and liabilities which the Directors believe are reasonable and adequately recognise any income tax related uncertainties. Various factors may have favourable or adverse effects on the income tax assets or liabilities. These include changes in legislation, tax rates and allowances, future levels of spending and the Company's future earnings.
- Determination of fair value – When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. Turnover

All turnover was generated in the United Kingdom principally from the handling, recycling and disposal of waste materials.

5. Profit on ordinary activities before taxation

	2015	2014
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets – owned	**1,542**	1,542

Auditor's remuneration in respect of audit fees totalling £17,000 (2014: £17,000) has been met by FCC Recycling (UK) Limited, a fellow subsidiary undertaking of FCC.

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.

Notes to the financial statements
For the year ended 31 December 2015

6. Staff costs

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

	2015 Number	2014 Number
Administrative	**7**	9

Their aggregate remuneration comprised:

	2015 £'000	2014 £'000
Wages and salaries	**237**	231
Social security costs	**25**	26
Other pension costs (see note 17)	**12**	15
	274	272

One of the Directors received remuneration through the Company during the year (2014: one). The other Directors are remunerated as Directors or employees of 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.

Directors' remuneration

	2015 £'000	2014 £'000
Emoluments	**51**	92
Contributions to defined contribution pension schemes	**5**	12
	56	104

Notes to the financial statements
For the year ended 31 December 2015

7. Net interest expense

a) Interest receivable and similar income

	2015	2014
	£'000	£'000
Movement on ineffective element of interest rate swaps	**82**	-
Bank interest receivable	**14**	15
	96	15

b) Interest payable and similar charges

	2015	2014
	£'000	£'000
Movement on ineffective element of interest rate swaps	**-**	341
Bank charges and similar costs	**62**	35
Loan interest payable	**2,277**	2,334
	2,339	2,710

c) Net interest expense

	2015	2014
	£'000	£'000
Interest receivable and similar income	**96**	15
Interest payable and similar charges	**(2,339)**	(2,710)
	(2,243)	(2,695)

Notes to the financial statements
For the year ended 31 December 2015

8. Tax on profit/(loss) on ordinary activities

The tax charge comprises:

	2015 £'000	2014 £'000
Current tax		
United Kingdom corporation tax at 20.25% (2014: 21.5%) based on profit for the year	**191**	372
Adjustment in respect of prior years	**(207)**	(82)
Total current tax	**(16)**	290
Deferred tax		
Origination and reversal of timing differences	**(85)**	(221)
Total deferred tax (see note 14)	**(85)**	(221)
Tax on profit on ordinary activities	**(101)**	69

Finance Act 2015 (No.2), which was substantively enacted in October 2015, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. Accordingly, deferred tax balances have been revalued to the lower rate of 18% in these financial statements.

The total tax (credit)/charge for both the current and previous year differs from the average standard rate of 20.25% (2014: 21.5%) for the reasons set out in the following reconciliation:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	**338**	772
Tax on profit on ordinary activities at average standard rate	**68**	166
Effects of:		
Non-taxable items	**240**	(15)
Adjustments in respect of prior years	**(207)**	(82)
Total tax (credit)/charge	**(101)**	69

Notes to the financial statements
For the year ended 31 December 2015

9. Tangible fixed assets

	Plant and machinery £'000	Waste treatment assets £'000	Total £'000
Cost			
At 1 January 2015 and 31 December 2015	145	36,195	36,340
Depreciation			
At 1 January 2015	145	10,112	10,257
Charge for the year	-	1,542	1,542
At 31 December 2015	145	11,654	11,799
Net book value			
At 31 December 2015	**-**	**24,541**	**24,541**
At 31 December 2014	-	26,083	26,083

Waste treatment assets include bid development costs with a net book value of £3,479,000 (2014: £3,697,000) after charging £218,000 (2014: £218,000) of depreciation in the year. Bid development costs, represent costs incurred during the preferred bidder stage of bringing the RE3 project to financial close and are being written off on a straight-line basis over the life of the PFI contract, being 25 years.

10. Debtors

	2015 £'000	2014 £'000
Amounts due within one year		
Trade debtors	**2,594**	2,139
Amounts due from group undertakings	**1,371**	579
Other debtors and prepayments	**2,923**	3,748
	6,888	6,466
Amounts due after more than one year		
Amounts due from group undertakings	**1,500**	1,500

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

Notes to the financial statements
For the year ended 31 December 2015

11. Creditors: amounts falling due within one year

	2015	2014
	£'000	£'000
Bank loan (unsecured) (note 13)	**1,109**	1,238
Trade creditors	**-**	238
Accruals	**5,178**	5,143
Other creditors	**194**	375
Amounts owed to group undertakings	**2,001**	770
Accrued interest on unsecured subordinated loan notes issued to RE3 Holding Limited	**187**	187
Interest rate swaps	**819**	923
	9,488	8,874

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

12. Creditors: amounts falling due after more than one year

	2015	2014
	£'000	£'000
Bank loan (unsecured) (note 13)	**22,855**	23,964
Amounts owed to group undertakings	**1,500**	1,500
Unsecured subordinated loan notes issued to RE3 Holding Limited	**6,195**	6,195
Interest rate swaps	**3,796**	4,498
	34,346	36,157

Further details regarding the interest rates payable and maturity profile of the bank loan, amounts due to parent undertaking and derivative financial instruments are included below in note 13.

Notes to the financial statements
For the year ended 31 December 2015

13. Borrowings

	2015 £'000	2014 £'000
Bank loan (unsecured)	**24,308**	25,572
Unsecured subordinated loan notes issued to RE3 Holding Limited	**6,195**	6,195
Less prepaid bank arrangement fees	**(344)**	(370)
Interest rate swaps	**4,615**	5,421
	34,774	36,818

Interest on the unsecured bank loans is payable at LIBOR plus 1.2%, fixed by means of an interest rate swap.

The amounts due after more than five years are payable in six-monthly instalments of varying amounts, with the final amount payable due on 30 September 2029.

The subordinated loan notes issued to the immediate parent company RE3 Holding Limited are repayable in full on 31 March 2031 and bear interest at a fixed rate of 12% per annum.

	2015 £'000	2014 £'000
Maturity profile		
Due within one year	**1,952**	2,186
Between one and two years	**2,137**	1,954
Between two and five years	**6,335**	6,698
Due after more than five years	**24,694**	26,350
	35,118	37,188
Less prepaid loan arrangement fees	**(344)**	(370)
	34,774	36,818

14. Provisions for liabilities

	Total £'000
Deferred taxation	
At 1 January 2015	(180)
Credit to profit and loss account	(85)
Recognised in equity	239
At 31 December 2015	**(26)**

Notes to the financial statements
For the year ended 31 December 2015

14. Provisions for liabilities (continued)

	Provided 2015 £'000	2014 £'000
Deferred tax comprises:		
Accelerated capital allowances	**805**	904
Hedging interest rate swap	**(831)**	(1,084)
	(26)	(180)

There was no unprovided deferred tax in either the current or previous years.

15. Called-up share capital and reserves

	2015 £'000	2014 £'000
Allotted, called-up and fully-paid		
10,000 ordinary shares of £1 each	**10**	10

Other reserves

The profit and loss reserve represents cumulative profits or losses.

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.

During the year ended 31 December 2015, an interim dividend of £620,000 (£62.00 per share) was paid to shareholders (2014: £nil). The final proposed dividend for the year ended 31 December 2015 was £nil per share (2014: £nil per share).

Notes to the financial statements
For the year ended 31 December 2015

16. Financial instruments

The carrying values of the Company's financial assets and liabilities are summarised by category below:

	2015 £'000	2014 £'000
Financial assets		
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 10)	**2,594**	2,139
- Amounts due from related undertakings (see note 10)	**2,871**	2,079
	5,465	4,218
Financial liabilities		
Measured at fair value and designated in an effective hedging relationship		
- Derivative financial liabilities (see note 13)	**4,615**	5,421
Measured at amortised cost		
- Loans payable (see note 11,12)	**30,346**	31,584
Measured at undiscounted amount payable		
- Trade and other creditors (see note 11,12)	**5,178**	5,381
- Amounts owed to related undertakings (see note 11, 12)	**3,501**	2,270
	43,640	44,656

The Company's income, expense, gains and losses in respect of financial instruments are summarised below:

	2015 £'000	2014 £'000
Interest income and expense		
Total interest income for financial liabilities at amortised cost	**14**	15
Total interest expense for financial liabilities at amortised cost	**2,339**	2,369

17. Pension contributions

The Company participates in the defined contribution scheme operated by FCC E UK on behalf of its eligible employees. The assets of this scheme are held separately from those of the Company in independently administered funds. There were no outstanding or prepaid contributions at the end of the year in respect of defined contribution schemes. Contributions under defined contribution schemes amounted to £12,000 during the year (2014: £15,000).

18. 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 102, the Company is exempt from disclosing related party transactions with other wholly owned subsidiaries of FCC.

Notes to the financial statements
For the year ended 31 December 2015

19. Controlling party

The immediate parent of the Company is RE3 Holding 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 and smallest 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.

20. Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014.

Profit or loss for 2014

	2014 £'000	2014 £'000
UK GAAP – as previously reported	976	
Movement on ineffective element of interest rate swaps	(341)	
Total adjustments to profit before tax	(341)	
Deferred tax impact of adjustments: Movement on ineffective element of interest rate swaps	68	
Total adjustments to tax expense		68
Profit for the financial year under FRS 102		**703**

Other comprehensive income for 2014		
UK GAAP – as previously reported		-
Change in fair value of hedging interest rate swap	(778)	
Tax relating to change in fair value of hedging interest rate swap	156	
		(622)
Other comprehensive expense for the financial year under FRS 102		**(622)**

Notes to the financial statements
For the year ended 31 December 2015

20. Explanation of transition to FRS 102 (continued)

Notes to the reconciliation of profit or loss for 2014

Recognition of derivative financial instruments – Derivative financial instruments utilised by the Company are interest rate swaps. The Company does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with the Company's risk management policies. Under FRS 102, such instruments are required to be recognised in the financial statements.

Total equity

	At 1 January 2014 £'000	At 31 December 2014 £'000
UK GAAP – as previously reported	(346)	630
Adjustments to equity on transition to FRS 102		
Recognition of derivative financial instruments	(3,442)	(4,337)
Equity reported under FRS 102	**(3,788)**	**(3,707)**