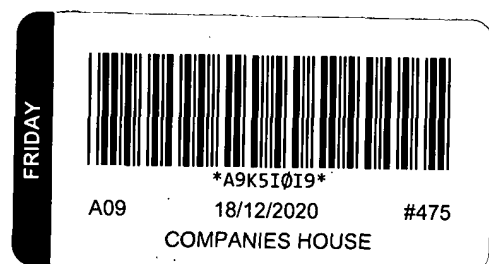


Company Registration No. 05663734

RE3 Limited

**Annual report and financial statements
for the year ended 31 December 2019**



RE3 Limited

Annual report and financial statements 2019

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RE3 Limited

Annual report and financial statements 2019

Officers and professional advisers

Directors

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V F Orts-Llopis

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RE3 Limited

Strategic report

The Directors present their strategic report on the affairs of RE3 Limited ("the Company") for the year ended 31 December 2019.

Overview of Group

The Company is an indirect subsidiary of FCC PFI Holdings Limited 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 Real Estate.

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

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

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

Principal activities

The principal activity of the Company during the year ended 31 December 2019 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 Group is one of the UK's leading waste management, recycling and renewable energy service businesses. It is a key player within the municipal waste management sector, with over 60 Local Authority clients across England, Wales and Scotland.

Future developments

Covid-19 was declared a global pandemic on 11 March 2020 by the World Health Organisation and measures taken by governments around the world including the UK to combat this public health emergency have had far reaching implications on peoples' lives, economies and businesses. As a designated 'Key Worker' and provider of essential public services, the Group is well placed to weather the current period of uncertainty. Further details of the measures taken by the Group to mitigate the crisis are described in the principal risks and uncertainties section on page 4 whilst further details of the Directors' careful considerations of the impact on future trading are set out in the going concern considerations in note 2.

RE3 Limited

Strategic report

Future developments (continued)

The Directors consider that the waste industry has to constantly adapt to an ever-changing environment, due to the prevailing budgetary conditions of the municipal sector, the pace of changes needed to satisfy society's concerns on sustainability and the subsequent legislative initiatives impacting our industry.

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

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

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

Business review

The Directors consider that the Company's business performance remained satisfactory during 2019. Commentary on the Company's results is set out in the Results, dividends and key performance indicators section.

Results, dividends and key performance indicators

The results for the year ended 31 December 2019 are set out on page 17. The profit for the financial year ended 31 December 2019 amounted to £1,194,000 (2018: £867,000). The Directors do not recommend the payment of a final dividend (2018: £nil) for the year under review following an interim dividend of £nil (2018: £nil). The profit for the financial year has been transferred to reserves (2018: transferred to reserves), resulting in a corresponding increase (2018: increase) in total shareholder's funds in the year.

For the year ended 31 December 2019, revenue from continuing activities decreased by 4.3% to £23.9million (2018: £25.0million). The result reflects a decrease in municipal tonnages from the RE3 contract, as well as changes to the composition and waste treatment processes used.

For the year ended 31 December 2019, operating profit increased by 16.3% to £3.5million (2018: £3.1million), the reduction in revenue being offset by lower waste disposal charges and lower maintenance costs.

Cash at 31 December 2019 was £11,901,000 (2018: £10,942,000). This increase reflects net cash inflows from operating activities and no capital repayment of subordinated loan notes.

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 2018/19 being £1,693 (2017/18: £2,262), this consisting of mainly turnaround failures for council vehicles remaining on site for longer than twenty minutes. There were no financial penalties for the sites being totally unavailable.

RE3 Limited

Strategic report

Financial and Non-Financial KPIs (continued)

- **Waste Management Performance** – The Company is required to meet targets for the effective processing of compostable, Energy From Waste (EFW) and recyclable materials. Performance against these targets is measured with 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 contract year 2018/19 the Company exceeded the relevant targets, with a year on year increase in overall Municipal Solid Waste (“MSW”) tonnage sent to EFW of 79.4k tonnes (2017/18: 77.0k tonnes). The increase was a result of additional capacity at third party and internal EFW plants. The overall level of recycling and composting from 2018/19 was slightly up year on year. The overall level of recovery showed an increase as a result of the additional EFW tonnages.

Principal risks and uncertainties

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

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

RE3 Limited

Strategic report

Principal risks and uncertainties (continued)

- **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. In addition, the decision to leave the European Union has resulted in a period of uncertainty for the UK economy and increased volatility in financial markets. A no deal Brexit scenario could influence consumer confidence, which in turn could affect and lead to lower sales volumes. We have reviewed the potential impacts and consider that we have sufficient mitigations in place. The Group's strategy is focused on growing through recycling and EfW where margins are generally higher than traditional landfill.
- **Litigation:** The Group is subject to litigation from time to time. The outcome of legal action is always uncertain and there is a risk that it may prove more costly and time consuming than expected. There is also a risk that litigation could be instigated in the future that could materially impact the Group. In some liability cases legal expenses are covered by the Group's liability insurance. This risk is mitigated through continued monitoring and employing an experienced and dedicated in-house legal team.
- **Competitive risk:** The Group operates in highly competitive markets in which competitors' service offerings may react faster to legislative and market dynamics than those of the Group. To mitigate this risk the Group ensures that its asset, cost and capital base is regularly reviewed and flexed to meet changes in customers' demands and to maximise cash generation.
- **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.

RE3 Limited

Strategic report

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.

Section 172 Statement

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

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

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

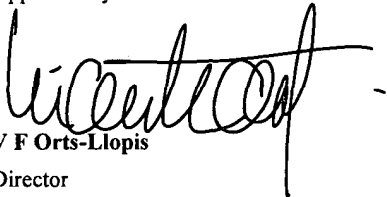
Details of our strategy are set out on pages 2-3 of the Strategic report and page 8 of the Directors' report. The Strategic report highlights performance in the year against that strategy together with future trends and developments.

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

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

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

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



V F Orts-Llopis

Director

14 December 2020

RE3 Limited

Directors' report

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

Directors

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

P Taylor

V F Orts-Llopis

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 pages 2-3.

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

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

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

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

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

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

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

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

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

RE3 Limited

Directors' report

Statement of Corporate Governance

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

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

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

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

Principle 1 – Purpose and Leadership

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

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

Our focus is:

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

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

Principle 2 – Board Composition

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

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

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

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

RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 3 – Directors Responsibilities

The Board supports our talented workforce, and upholds our commitment to sustainability. The Board agrees, and has the collective responsibility for the strategy of the Group, which is outlined in our strategic report on pages 2-3. The Senior Management Team oversee the day to day responsibilities and opportunities of our very capable workforce.

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

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

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

Principle 4 – Opportunity & Risk

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

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

Operating in the UK's highly regulated waste management market, presents numerous risks and uncertainties to the Group. The principal risks and uncertainties affecting the Group and set out in detail on pages 4-5 of the Strategic Report.

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

Principle 5 – Remuneration

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

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

RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders

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

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

FCC's UK Environment business which includes the Company has:

- Over 2,300 employees (8 in the Company)
- 100 major contracts with a total of 60 local authorities
- 280 UK sites of which 166 are operational
- 7 PFI and PPP Contracts
- 6,000 business waste customer agreements
- 3,500 customer accounts
- 4,000 customer sites

Stakeholders are at the forefront of our business. Liaison with trade customers, partner councils and local authorities is fundamental to ensuring that we understand their needs and continue to deliver the services that they require. Engagement with regulatory bodies is critical to ensuring that we manage the risks set out on pages 4-5 of the Strategic report and remain compliant with applicable laws and regulations. Page 7 of the Directors' report set out details of our employee engagement programme.

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

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

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

January 2019

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

February 2019

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

March 2019

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

RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

April 2019

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

May 2019

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

June 2019

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

July 2019

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

August 2019

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

September 2019

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

October 2019

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

November 2019

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

December 2019

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

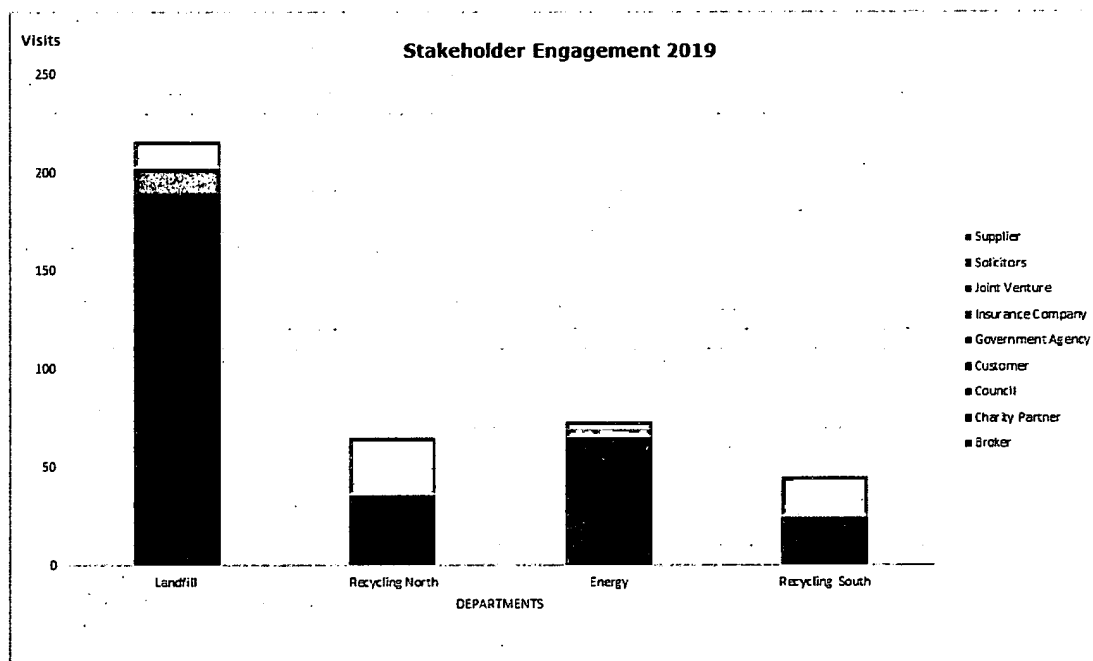
RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

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



Post balance sheet event

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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

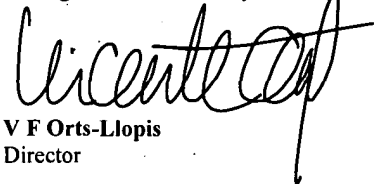
Each of the persons who is a director at the date of approval of this report confirms that:

- 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 of Directors
and signed on its behalf by:



V F Orts-Llopis
Director

14 December 2020

RE3 Limited

Independent auditor's report to the members of RE3 Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of RE3 Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

RE3 Limited

Independent auditor's report to the members of RE3 Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

RE3 Limited

Independent auditor's report to the members of RE3 Limited

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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



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

RE3 Limited

Statement of comprehensive income For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue	4	23,889	24,953
Staff costs		(421)	(362)
Other operating expenses		(18,379)	(19,998)
Depreciation and amortisation		(1,542)	(1,542)
Operating profit		3,547	3,051
Finance income	7	10	38
Finance costs	7	(1,713)	(1,951)
Profit before taxation	5	1,844	1,138
Tax on profit	8	(650)	(271)
Profit for the financial year		1,194	867
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		29	955
Tax relating to items that may be reclassified		(5)	(162)
Total comprehensive income for the year		1,218	1,660

The notes on pages 20 to 31 are an integral part of these financial statements.

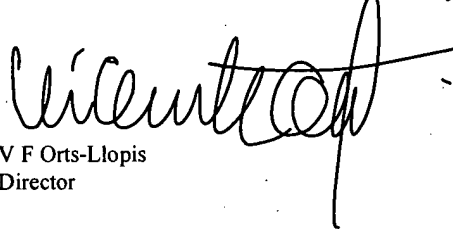
RE3 Limited

Balance sheet As at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	9	18,373	19,915
Current assets			
Debtors: amounts due within one year	10	5,199	5,253
Debtors: amounts due after more than one year	10	1,500	1,500
Deferred tax	14	637	645
Cash and cash equivalents		11,901	10,942
		<u>19,237</u>	<u>18,340</u>
Creditors: amounts falling due within one year	11	<u>(5,768)</u>	<u>(6,116)</u>
Net current assets		<u>13,469</u>	<u>12,224</u>
Total assets less current liabilities		<u>31,842</u>	<u>32,139</u>
Creditors: amounts falling due after more than one year	12	<u>(27,221)</u>	<u>(28,691)</u>
Provisions for liabilities	14	<u>(626)</u>	<u>(671)</u>
Net assets		<u>3,995</u>	<u>2,777</u>
Capital and reserves			
Called-up share capital	15	10	10
Cash flow hedging reserve		(2,985)	(3,009)
Profit and loss account		6,970	5,776
Total shareholder's funds		<u>3,995</u>	<u>2,777</u>

The notes on pages 20 to 31 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 14 December 2020. They were signed on its behalf by:



V F Orts-Llopis
Director

RE3 Limited

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

	Called-up share capital £'000	Cash flow hedging reserve £'000	Profit and loss account £'000	Total £'000
Year ended 31 December 2019				
At 1 January 2019	10	(3,009)	5,776	2,777
<i>Other comprehensive income/(expense)</i>				
Change in fair value of hedging interest rate swap	-	29	-	29
Tax related to gains recognised in equity	-	(5)	-	(5)
<i>Comprehensive income</i>				
Profit for the year	-	-	1,194	1,194
Total comprehensive income	-	24	1,194	1,218
At 31 December 2019	10	(2,985)	6,970	3,995
Year ended 31 December 2018				
At 1 January 2018	10	(3,802)	4,909	1,117
<i>Other comprehensive income/(expense)</i>				
Change in fair value of hedging interest rate swap	-	955	-	955
Tax related to gains recognised in equity	-	(162)	-	(162)
<i>Comprehensive income</i>				
Profit for the year	-	-	867	867
Total comprehensive income	-	793	867	1,660
At 31 December 2018	10	(3,009)	5,776	2,777

RE3 Limited

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

1. Corporate information

RE3 Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006. 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 except derivative financial instruments that have been measured at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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.

Reclassification of comparative balances

Statement of comprehensive income

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

	Year ended 31 December 2018
	£'000
<i>As previously presented</i>	
Cost of sales	20,066
Administrative expenses	1,836
	<hr/>
	21,902
	<hr/>
<i>As reclassified</i>	
Staff costs	362
Other operating expenses	19,998
Depreciation and amortisation	1,542
	<hr/>
	21,902
	<hr/>

Balance sheet

Comparative amounts for derivative financial instruments have been re-classified to reflect current year treatment:

- (a) The amount of £680,000 shown in Creditors: amounts falling due within one year has been re-presented under Creditors: amounts falling due after more than one year; and
- (b) Interest accrued of £208,000 shown within Accruals in Creditors: amounts falling due within one year has been re-presented under Creditors: amounts falling due after more than one year.

The corresponding notes 11,12,13 and 16 have been re-presented to reflect this.

RE3 Limited

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

2. Accounting policies (continued)

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 year.

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.

In light of the Covid-19 pandemic, the Directors have considered the impact that has been experienced by the Company in recent months with customers, suppliers, employees and other stakeholders as well as the impact on operating cash flows. The Directors have also performed and carefully considered a number of different forecast scenarios of varying severity to stress test the resilience of the Company's cash flows and trading performance. All scenarios provided sufficient comfort to the Directors.

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.

Revenue

Revenue is stated net of value added tax and trade discounts. Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Revenue 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.

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

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

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

RE3 Limited

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

2. Accounting policies (continued)

• Taxation (continued)

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.

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.

RE3 Limited

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

2. Accounting policies (continued)

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.

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 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.

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

2. Accounting policies (continued)

Financial instruments (continued)

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.

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.

4. Revenue

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

RE3 Limited

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

5. Profit before taxation

	2019 £'000	2018 £'000
Profit before taxation is stated after charging:		
Depreciation of tangible assets - owned	<u>1,542</u>	<u>1,542</u>

Auditor's remuneration in respect of audit fees totalling £13,500 (2018: £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 E UK.

6. Staff costs

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

	2019 Number	2018 Number
Administrative	<u>8</u>	<u>7</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	372	316
Social security costs	36	34
Other pension costs (see note 17)	13	12
	<u>421</u>	<u>362</u>

None of the Directors received any remuneration or other benefits through the Company during the year ended 31 December 2019 or the previous financial year.

They are all 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. The Directors received total remuneration of £639,000 for services to the Group as a whole in the year ended 31 December 2019 (2018: £647,000).

7. Net interest expense

a) Finance income

	2019 £'000	2018 £'000
Bank interest receivable	10	16
Movement on ineffective element of interest rate swaps	-	22
	<u>10</u>	<u>38</u>

RE3 Limited

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

7. Net interest expense (continued)

b) Finance costs

	2019 £'000	2018 £'000
Bank charges and similar costs	56	68
Loan interest payable	1,657	1,883
	<u>1,713</u>	<u>1,951</u>

c) Net finance cost

	2019 £'000	2018 £'000
Finance income	10	38
Finance costs	(1,713)	(1,951)
	<u>(1,703)</u>	<u>(1,913)</u>

8. Tax on profit

The tax charge comprises:

	2019 £'000	2018 £'000
Current tax		
United Kingdom corporation tax at 19% (2018: 19%) based on profit for the year	521	374
Adjustment in respect of prior years	171	49
Total current tax	<u>692</u>	<u>423</u>
Deferred tax		
Origination and reversal of timing differences	(111)	(152)
Adjustment in respect of prior years	69	-
Total deferred tax (see note 14)	<u>(42)</u>	<u>(152)</u>
Tax on profit	<u>650</u>	<u>271</u>

Finance Act 2016, which received Royal Assent in September 2016, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and 17% from 1 April 2020. Therefore, the rate of 17% has been used to measure deferred tax assets and liabilities as at 31 December 2019.

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

RE3 Limited

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

8. Tax on profit (continued)

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

	2019 £'000	2018 £'000
Profit before tax	1,844	1,138
Tax on profit at average standard rate	350	216
Effects of:		
Non-taxable items	60	6
Adjustments in respect of prior years	240	49
Total tax charge	650	271

9. Tangible fixed assets

	Plant and machinery £'000	Waste treatment assets £'000	Total £'000
Cost			
At 1 January 2019 and 31 December 2019	145	36,195	36,340
Depreciation			
At 1 January 2019	145	16,280	16,425
Charge for the year	-	1,542	1,542
At 31 December 2019	145	17,822	17,967
Net book value			
At 31 December 2019	-	18,373	18,373
At 31 December 2018	-	19,915	19,915

Waste treatment assets include bid development costs with a net book value of £2,604,000 (2018: £2,822,000) after charging £218,000 (2018: £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.

RE3 Limited

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

10. Debtors

	2019 £'000	2018 £'000
Amounts due within one year		
Trade debtors	3,042	2,837
Amounts due from group undertakings	2,157	2,416
	<u>5,199</u>	<u>5,253</u>
Amounts due after more than one year		
Amounts due from group undertakings	<u>1,500</u>	<u>1,500</u>

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

11. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loan (unsecured) (note 13)	1,363	1,766
Accruals	895	1,290
Other creditors	269	318
Amounts owed to group undertakings	3,137	2,628
Accrued interest on unsecured subordinated loan notes issued to RE3 Holding Limited	104	114
	<u>5,768</u>	<u>6,116</u>

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

	2019 £'000	2018 £'000
Bank loan (unsecured) (note 13)	16,588	17,952
Amounts owed to group undertakings	1,500	1,500
Unsecured subordinated loan notes issued to RE3 Holding Limited	5,195	5,238
Interest rate swaps	3,938	4,001
	<u>27,221</u>	<u>28,691</u>

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.

RE3 Limited

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

13. Borrowings

	2019 £'000	2018 £'000
Bank loan (unsecured)	18,195	19,987
Unsecured subordinated loan notes issued to RE3 Holding Limited	5,195	5,352
Less prepaid bank arrangement fees	(244)	(269)
Interest rate swaps	3,938	4,001
	<u>27,084</u>	<u>29,071</u>

Interest on the unsecured bank loans is payable at LIBOR plus 1.15%, fixed by means of an interest rate swap.

The amounts due on the unsecured bank loan 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.

	2019 £'000	2018 £'000
Maturity profile		
Due within one year	1,388	2,472
Between one and two years	1,335	1,949
Between two and five years	5,242	6,103
Due after more than five years	19,363	18,608
	<u>27,328</u>	<u>29,340</u>
Less prepaid loan arrangement fees	(244)	(269)
	<u>27,084</u>	<u>29,071</u>

14. Deferred tax

	Asset £'000	Liability £'000	Net £'000
Deferred taxation			
At 1 January 2019	645	(671)	(26)
(Charge)/credit to profit and loss account	(3)	45	42
Recognised in equity	(5)	-	(5)
At 31 December 2019	<u>637</u>	<u>(626)</u>	<u>11</u>

RE3 Limited

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

14. Deferred tax (continued)

	2019 £'000	2018 £'000
Deferred tax asset/(liability) comprises:		
Accelerated capital allowances	(626)	(671)
Hedging interest rate swap	637	645
	<u>11</u>	<u>(26)</u>

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

15. Called-up share capital and reserves

	2019 £'000	2018 £'000
Allotted, called-up and fully-paid 10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

Other reserves

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

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.

16. Financial instruments

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

	2019 £'000	2018 £'000
Financial assets		
<i>Measured at undiscounted amount receivable</i>		
- Trade and other debtors (see note 10)	3,042	2,837
- Amounts due from related undertakings (see note 10)	3,657	3,916
	<u>6,699</u>	<u>6,753</u>
Financial liabilities		
<i>Measured at fair value and designated in an effective hedging relationship</i>		
- Derivative financial liabilities (see note 13)	3,938	4,001
<i>Measured at amortised cost</i>		
- Loans payable (see note 11,12)	23,146	25,070
<i>Measured at undiscounted amount payable</i>		
- Trade and other creditors (see note 11)	269	335
- Amounts owed to related undertakings (see note 11, 12)	4,637	4,128
	<u>31,990</u>	<u>33,534</u>

RE3 Limited

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

16. Financial instruments (continued)

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

	2019 £'000	2018 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	10	16
Total interest expense for financial liabilities at amortised cost	1,713	1,951

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 £13,000 during the year (2018: £12,000).

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.

19. Post balance sheet event

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

20. 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. The ultimate controlling party is Inversora Carso S.A. de C.V., a company registered in Mexico.

Fomento de Construcciones y Contratas, S.A. is the parent company of the 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.