Company Registration No. 05663734

RE3 Limited

Annual report and financial statements

for the year ended 31 December 2017

RE3 Limited

Annual report and financial statements 2017

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Officers and professional advisers

Directors

P Taylor
V F Orts-Llopis

Company Secretary

C Nunn

Registered Office

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Northampton Business Park
Northampton
NN4 7RG

Auditor

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ
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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 2017.

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 Company and its 40 fellow subsidiaries (together the "Group" or "FCC E UK") as a leading waste management, recycling and renewable energy business, and the Group's ambition to maintain its position as a significant player in establishing the next generation of waste treatment infrastructure in the UK. The core services provided by the Group are fully aligned with FCC's strategic growth plans and it is ideally placed to take advantage of local opportunities to provide the services and infrastructure required by the UK to meet the European Waste Framework Directive; 50% of all municipal waste will have to be recycled by 2020 and the European Union's target that 20% of all energy consumed should be from a renewable source by 2020. 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 2017 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.

RE3 Limited

Strategic report

Principal activities (continued)

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 2016, the Group received, treated, recycled and disposed of 8.6million (2015: 8.6million) tonnes of household, commercial and industrial waste and managed around 200 waste management facilities. Through innovative solutions, the Group is committed to working with its Local Authority partners and industrial and commercial customers to respond to often complex and far-reaching waste management strategies, to meet the challenges of increased regulation from the UK and EU, and to improve upon waste management targets.

Business review

The Directors consider that the Company's business performance remained satisfactory during 2016.

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

The results for the year ended 31 December 2017 are set out on page 12. The profit for the financial year ended 31 December 2017 amounted to £1,218,000 (2016: £3,889,000). The Directors do not recommend the payment of a final dividend (2016: £nil) for the year under review following an interim dividend of £nil (2016: £364,000). The profit for the financial year has been transferred to reserves (2016: transferred to reserves), resulting in a corresponding increase (2016: decrease) in total shareholder's funds in the year.

For the year ended 31 December 2017, turnover from continuing activities decreased by 11.7% to £26.0million (2016: £29.4million). The result reflects a decrease in municipal tonnages from the RE3 contract, as well as changes to the composition and waste treatment processes used. Annual reconciliation for the sharing of recyclate income has been agreed for contract year 16/17.

Cash at 31 December 2017 was £9,132,000 (2016: £6,814,000). 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 2017/18 being £757 (2016/17: £3,743), 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, Energy From Waste 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 2017/18 the Company exceeded the relevant targets, with an increases year on year increase in overall Municipal Solid Waste ("MSW") tonnage sent to EFW at 64.9k tonnes (2016/17: 58.1k tonnes). The previous year having two periods of facility shutdown. The overall levels of recycling and composting for 2017 were the slightly up year on year. The overall level of recovery showed an increase as a result of the additional EFW tonnages.

Strategic report

Future developments

The Directors consider that 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.

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.

- **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.

Strategic report

Principal risks and uncertainties (continued)

- **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.

Approved by the Board and signed on its behalf by:

V F Orts-Llopis
Director

21 September 2018

RE3 Limited

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2017. Information on the Company's going concern status, financial risk management policies and dividends are disclosed in the strategic report.

Directors

The following individuals served as Directors of the Company during the year ended 31 December 2017 and up to the date of this report:

P Taylor
V F Orts-Llopis

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.

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

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:

V F Orts-Llopis
Director
21-September 2018

RE3 Limited

Independent auditor's report to the members of RE3 Limited

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 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 of RE3 Limited (the 'company') which comprise:

- the statement of comprehensive income and expense;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 19.

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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

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

Use of our report

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

RE3 Limited

Independent auditor's report to the members of RE3 Limited

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Makhan Chahal (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
25th September 2018

RE3 Limited

Statement of comprehensive income and expense
For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Turnover	4	**26,017**	29,449
Cost of sales		**(20,397)**	(20,490)
Gross profit		**5,620**	8,959
Administrative expenses		**(1,824)**	(1,830)
Operating profit		**3,796**	7,129
Interest receivable and similar income	7	**18**	72
Interest payable and similar charges	7	**(2,049)**	(2,227)
Profit before taxation	5	**1,765**	4,974
Tax on profit	8	**(547)**	(1,085)
Profit for the financial year		**1,218**	3,889
Other comprehensive (expense)/income for the year:			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of hedging interest rate swap		**595**	(809)
Tax relating to items that may be reclassified		**(101)**	91
Total comprehensive income for the year		**1,712**	3,171

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

The notes on pages 15 to 28 are an integral part of these financial statements.

RE3 Limited

Balance sheet
As at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	9	**21,457**	22,999
Deferred tax asset	14	**811**	911
		22,268	23,910
Current assets			
Debtors: amounts due within one year	10	**4,839**	6,323
Debtors: amounts due after more than one year	10	**1,500**	1,500
Cash and cash equivalents		**9,132**	6,814
		15,471	14,637
Creditors: amounts falling due within one year	11	**(5,409)**	(5,780)
Net current assets		**10,062**	8,857
Total assets less current liabilities		**32,330**	32,767
Creditors: amounts falling due after more than one year	12	**(30,386)**	(32,623)
Provisions for liabilities	14	**(827)**	(739)
Net assets/(liabilities)		**1,117**	(595)
Capital and reserves			
Called-up share capital	15	**10**	10
Cash flow hedging reserve		**(3,802)**	(4,296)
Profit and loss account		**4,909**	3,691
Total shareholder's funds/(deficit)		**1,117**	(595)

The notes on pages 15 to 28 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 21-Sept 2018. 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 2017

	Called-up share capital £'000	Cash flow hedging reserve £'000	Profit and loss account £'000	Total £'000
Year ended 31 December 2017				
At 1 January 2017	10	(4,296)	3,691	(595)
Other comprehensive(expense)/ income				
Change in fair value of hedging interest rate swap	-	595	-	595
Tax related to gains recognised in equity	-	(101)	-	(101)
Comprehensive income				
Profit for the year	-	-	1,218	1,218
At 31 December 2017	**10**	**(3,802)**	**4,909**	**1,117**
Year ended 31 December 2016				
At 1 January 2016	10	(3,578)	166	(3,402)
Other comprehensive income/(expense)				
Change in fair value of hedging interest rate swap	-	(809)	-	(809)
Tax related to losses recognised in equity	-	91	-	91
Comprehensive income				
Profit for the year	-	-	3,889	3,889
Dividends	-	-	(364)	(364)
At 31 December 2016	**10**	**(4,296)**	**3,691**	**(595)**

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

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 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.

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.

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.

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.

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

2. **Accounting policies (continued)**

Financial instruments (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

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 2017

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.

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

	2017	2016
	£'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 (2016: £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 2017

6. Staff costs

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

	2017	2016
	Number	Number
Administrative	**7**	7

Their aggregate remuneration comprised:

	2017	2016
	£'000	£'000
Wages and salaries	**269**	264
Social security costs	**25**	26
Other pension costs (see note 17)	**10**	10
	304	300

None of the Directors received any remuneration or other benefits through the Company during the year ended 31 December 2017 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 £637,000 for services to the Group as a whole in the year ended 31 December 2017 (2016: £578,000).

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

7. Net interest expense

a) Interest receivable and similar income

	2017 £'000	2016 £'000
Movement on ineffective element of interest rate swaps	-	65
Bank interest receivable	18	7
	18	72

b) Interest payable and similar charges

	2017 £'000	2016 £'000
Bank charges and similar costs	57	60
Loan interest payable	1,985	2,167
Movement on ineffective element of interest rate swaps	7	-
	2,049	2,227

c) Net interest expense

	2017 £'000	2016 £'000
Interest receivable and similar income	18	72
Interest payable and similar charges	(2,049)	(2,227)
	(2,031)	(2,155)

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

8. Tax on profit on ordinary activities

The tax charge/(credit) comprises:

	2017 £'000	2016 £'000
Current tax		
United Kingdom corporation tax at 19.25% (2016: 20.00%) based on profit for the year	**496**	1,132
Adjustment in respect of prior years	**(36)**	8
Total current tax	**460**	1,140
Deferred tax		
Origination and reversal of timing differences	**87**	(55)
Total deferred tax (see note 14)	**87**	(55)
Tax on profit on ordinary activities	**547**	1,085

Finance Act 2016, which was substantively enacted in September 2016, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and 17% from 1 April 2020.

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

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	**1,765**	4,974
Tax on profit on ordinary activities at average standard rate	**340**	995
Effects of:		
Non-taxable items	**243**	82
Adjustments in respect of prior years	**(36)**	8
Total tax charge/(credit)	**547**	1,085

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

9. Tangible fixed assets

	Plant and machinery £'000	Waste treatment assets £'000	Total £'000
Cost			
At 1 January 2017 and 31 December 2017	145	36,195	36,340
Depreciation			
At 1 January 2017	145	13,196	13,341
Charge for the year	-	1,542	1,542
At 31 December 2017	145	14,738	14,883
Net book value			
At 31 December 2017	**-**	**21,457**	**21,457**
At 31 December 2016	-	22,999	22,999

Waste treatment assets include bid development costs with a net book value of £3,040,000 (2016: £3,258,000) after charging £218,000 (2016: £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

	2017 £'000	2016 £'000
Amounts due within one year		
Trade debtors	**2,460**	2,891
Amounts due from group undertakings	**2,379**	2,412
Other debtors and prepayments	**-**	1,020
	4,839	6,323
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 2017

11. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Bank loan (unsecured) (note 13)	**1,729**	1,408
Accruals	**370**	1,494
Other creditors	**282**	277
Amounts owed to group undertakings	**2,072**	1,559
Accrued interest on unsecured subordinated loan notes issued to RE3 Holding Limited	**139**	164
Interest rate swaps	**817**	878
	5,409	5,780

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

	2017 £'000	2016 £'000
Bank loan (unsecured) (note 13)	**19,718**	21,447
Amounts owed to group undertakings	**1,500**	1,500
Unsecured subordinated loan notes issued to RE3 Holding Limited	**5,214**	5,195
Interest rate swaps	**3,954**	4,481
	30,386	32,623

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 2017

13. Borrowings

	2017 £'000	2016 £'000
Bank loan (unsecured)	**21,742**	23,175
Unsecured subordinated loan notes issued to RE3 Holding Limited	**5,353**	5,195
Less prepaid bank arrangement fees	**(295)**	(320)
Interest rate swaps	**4,771**	5,359
	31,571	33,409

Interest on the unsecured bank loans is payable at LIBOR plus 1.2%, 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.

	2017 £'000	2016 £'000
Maturity profile		
Due within one year	**2,571**	2,311
Between one and two years	**2,476**	2,534
Between two and five years	**5,857**	6,239
Due after more than five years	**20,962**	22,645
	31,866	33,729
Less prepaid loan arrangement fees	**(295)**	(320)
	31,571	33,409

14. Provisions for liabilities

	Total £'000
Deferred taxation	
At 1 January 2017	(172)
Credit to profit and loss account	87
Recognised in equity	101
At 31 December 2017	**16**

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

14. Provisions for liabilities (continued)

	Provided 2017 £'000	2016 £'000
Deferred tax comprises:		
Accelerated capital allowances	**827**	739
Hedging interest rate swap	**(811)**	(911)
	16	(172)

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

15. Called-up share capital and reserves

	2017 £'000	2016 £'000
Allotted, called-up and fully-paid		
10,000 ordinary shares of £1 each	**10**	10

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.

During the year ended 31 December 2017, an interim dividend of £nil (£nil per share) was paid to shareholders (2016: £364,000 (£36.40 per share). The final proposed dividend for the year ended 31 December 2017 was £nil per share (2016: £nil per share).

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

16. Financial instruments

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

	2017 £'000	2016 £'000
Financial assets		
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 10)	**2,460**	2,891
- Amounts due from related undertakings (see note 10)	**3,879**	3,912
	6,339	6,803
Financial liabilities		
Measured at fair value and designated in an effective hedging relationship		
- Derivative financial liabilities (see note 13)	**4,771**	5,359
Measured at amortised cost		
- Loans payable (see note 11,12)	**26,799**	28,214
Measured at undiscounted amount payable		
- Trade and other creditors (see note 11,12)	**79**	1,494
- Amounts owed to related undertakings (see note 11, 12)	**3,610**	3,059
	35,259	38,126

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

	2017 £'000	2016 £'000
Interest income and expense		
Total interest income for financial liabilities at amortised cost	**18**	7
Total interest expense for financial liabilities at amortised cost	**2,049**	2,227

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 £10,000 during the year (2016: £10,000).

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 2017

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.