

Company Registration No. 05663734

RE3 Limited

**Annual report and financial statements
for the year ended 31 December 2021**



RE3 Limited

Annual report and financial statements 2021

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RE3 Limited

Annual report and financial statements 2021

Officers and professional advisers

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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 2021.

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 is among the top global players that deliver Environmental Services (including water and waste management), and has implemented a balanced business model, combining other activities such as Construction, Cement and Real Estate.

The activities, strategy and risks affecting the Company are inextricably similar to, and dependent on, those of FCC’s UK wider Environment Business (“FCC UK” or 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 promote circular economy infrastructure, 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 overarching strategy headline for our business is “From Waste to Resource”, which comprises four key components;

- Own the Waste
- Maximise the value of resources
- Produce renewable energy
- Provide 360 degree solutions

The Board sees the development of major EfW waste infrastructure projects to support sustainable waste management and strategic long-term partnerships as key to the Group’s future business growth. Energy from Waste is a key component of the UK’s waste and resource strategy for handling and managing residual waste and is a strategy that represents a long term sustainable solution for meeting the Group’s clients’ diversion targets and for reducing our carbon footprint.

Principal activities

The principal activity of the Company during the year ended 31 December 2021 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 60 Local Authority clients across England, Wales and Scotland.

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Strategic report

Business review

The Directors consider that the Company's business performed in line with expectations during the year.

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

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 showed through 2020 and 2021 that it is well placed to weather the current period of uncertainty. Further details of the measures taken by the Group to mitigate the crisis are described in the principal risks and uncertainties section on page 3.

Results, dividends and key performance indicators

The results for the year ended 31 December 2021 are set out on page 17. The profit for the financial year ended 31 December 2021 amounted to £1.1million (2020: £0.6million). The Directors do not recommend the payment of a final dividend (2020: £nil) for the year under review following an interim dividend of £nil (2020: £nil).

For the year ended 31 December 2021, revenue from continuing activities decreased by 5.8% to £24.4million (2020: £25.9million). The result reflects a small 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 2021, operating profit increased by 38.5% to £3.9million (2020: £2.8million), with lower waste disposal charges and maintenance costs offsetting the decreased revenue.

Cash at 31 December 2021 was £13.2million (2020: £13.3million).

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 2021/22 being £1,752 (2020/21: £1,464), 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.
- **Waste Management Performance** – The Company is required to meet targets for the effective processing of compostable, 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 2021/22 the Company exceeded the relevant EfW targets, despite a year on year decrease in overall Municipal Solid Waste ("MSW") tonnage sent to EfW (2021/22 : 73.1k tonnes / 2020/21: 87.2k tonnes). The decrease was a result of some unavailability at the third party EfW facility used to process MRF rejects and a reduced amount of waste suitable for EfW has reduced following the successful rollout of Food Waste collections by the 3 RE3 Councils. The overall level of recycling and composting in 2021/22 was also up year on year, this being a result of increased food waste disposal as the collection services were rolled out across all three RE3 councils. The overall level of Recovery / Landfill Diversion was the highest ever contract to date at 95.6%.

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Strategic report

Future trends and developments

The Directors expect the Company to continue to operate in line with its principal activities in future years.

The Directors consider that the climate agenda has become the climate crisis: public concern for the environment has never been greater, and government focus at all levels – internationally, nationally and locally – has shifted significantly. In particular, the UK has committed to Net Zero carbon emissions by 2050 (2045 in Scotland), and new laws are taking shape under the emerging Environment Bill, informed by the 2018 Resources and Waste Strategy. The waste sector works collaboratively to ensure it is making a positive contribution to national and legally binding Net Zero obligations. Within this, the Directors believe that EfW is currently a vital part of today's waste hierarchy.

To tackle the environmental issues, the UK Government has presented to Parliament an ambitious range of measures to address how we better use our precious resources. The measures include a greater than ever emphasis on reduction, reuse and recycling aimed at shaping a new direction for resources and waste management to create a “cleaner, greener and more resilient country for the next generation”.

By moving material further up the waste hierarchy away from landfill, the UK waste sector has already helped to reduce greenhouse gas emissions from landfill and has also enabled the UK to improve its municipal recycling rate. Whilst this represents a step towards achieving a Net Zero UK recycling and waste industry, in line with the Government's aspirations, challenges, and indeed opportunities, remain. A balance must be struck between complementing, rather than competing with, recycling. EfW plays an important role treating waste, generating electricity and heat as well as reducing the reliance on fossil fuels.

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 continued, where possible, to provide first class services at that difficult time. In response to the crisis, the Group established a Covid-19 committee consisting of the Group's executive management team whilst the Group also participated in a wider FCC global response committee. The team had regular virtual meetings during the height of the crisis with the welfare of employees, customers, suppliers and other stakeholders visiting our sites, the primary concern. The committee considered and ensured the practical implementation of government guidelines and also managed the operational and financial implications for the business.
- **Environmental risks:** The Group's environmental risks are tightly controlled under environmental legislation enforced principally by the Environment Agency (“EA”), Scottish Environment Protection Agency (“SEPA”) and Natural Resources Wales (“NRW”). Compliance with all environmental legislation pertinent to the Group's activities is a minimum requirement. A dedicated in-house team prepare regular reports on environmental compliance at the Group's sites for the Board's review. Environmental objectives are reviewed annually and highlighted within the Group's Safety Health Environment and Quality (SHEQ) Policy Statement. In addition to this, there are detailed environmental procedures to enable compliance with environmental legislation.

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Strategic report

Principal risks and uncertainties (continued)

- **Health and safety:** Health and safety is a key issue for the Group due to the nature of its operations, including the use of heavy plant equipment and difficult working conditions. The Group is continually improving in this area as a result of ongoing consultation with the relevant authorities and the monitoring of best practice initiatives. Whenever an area is highlighted for improvement, the Group seeks to implement such improvement expeditiously; through bulletins, on-line training courses and tool-box briefings. The Group's Incident Review Panel meets quarterly, at which senior management review significant health and safety incidents that have occurred at Group sites to identify improvements and lessons for the business. All employees undertake a rigorous health and safety training programme, which is underpinned by the latest UK legislation, detailed policies and procedures. The Group's executive management receive regular, detailed reports on health and safety performance affecting the Group's operations and it employs a dedicated team, led by the Group Safety, Health, Environment and Quality Manager, to monitor and promote high standards. All employees are expected to recognise their role in achieving acceptable standards of health and safety and to exhibit such understanding through their approach and attitude to work.
- **Business continuity:** The Group, as part of its risk management programme, has developed business continuity planning for its operations. As part of this planning, the Group has developed a bespoke emergency plan for each operational facility (including the diversion of waste from single or multiple sites in the event of major disruption or disaster affecting a site or region). The Group's IT systems are outsourced to a specialist infrastructure 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.
- **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. We have reviewed the potential impacts and consider that we have sufficient mitigations in place. The Group's strategy is focused on growing through further investment in EfW infrastructure projects.
- **Litigation:** The Group could be 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.

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Strategic report

Financial risk management objectives and policies

The Company is exposed to financial risk through its financial assets and liabilities. The most important components of financial risk are interest rate risk, credit risk and liquidity risk all of which the Directors consider relevant due to the nature of the Company's activities and the assets contained within the Company's balance sheet.

Liquidity and credit risk

The Company's exposure to credit and liquidity risk is reduced as it is a subsidiary of FCC. Credit risk arises from the risk of having credit exposures to third parties, including outstanding receivables. The Directors consider credit risk to be minimal as debtor balances included within the Company's balance sheet consist of amounts due from subsidiaries. Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its commitments. The Company prepares and reviews cash flow forecasts frequently to ensure that it has sufficient resources to meet its cash flow commitments.

Interest rate risk

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

Going concern

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

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

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Strategic report

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 2020 and 2021 to promote long-term success, and how it engaged with stakeholders and considered their interests when making those decisions, can be found throughout this Strategic report and in the Directors' report.

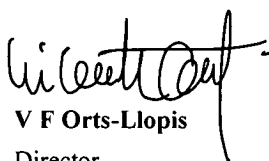
Details of our strategy are set out on page 2 of the Strategic report and pages 8-9 of the Directors' report. The Strategic report highlights performance in the year against that strategy together with future trends and developments.

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.

The Company's main stakeholders are its members, customers and suppliers, lenders, and fellow subsidiary companies with whom it has loan relationships. Open, constructive dialogue with our 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 11-12 of the Directors' report. The Board has overall responsibility for managing relationships with all our stakeholders. Day to day relationships are mainly managed through operations and maintenance contracts with wider FCC Group subsidiary companies.

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 pages 4-5.

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



V F Orts-Llopis

Director

28 September 2022

RE3 Limited

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2021. 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 2021 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 4.

Employees

The professionalism and commitment shown by the Group's employees over the past year during the pandemic and the challenges it has brought was exceptional and 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 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.

Employees' ways of working changed during 2020 with staff adapting to home working and front line staff working within the safety parameters put in place by the Group. This has enabled the Company to continue to provide its day to day services. Employees fully embraced new working patterns and to their credit made them work.

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 had to make adaptations to the way we provided training with much delivery moved to online provision. We have continued to pay 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.

We believe our employee value proposition is one that makes us a go to company to work for and this is reflected in higher rates of engagement by our employees.

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 2021, 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.

FCC Environment is one of the UK's leading waste and resource management companies. Our approach is to minimise the amount of waste that ends up in landfill by transforming it into valuable resources wherever possible. We are helping shape the policy landscapes, ensuring that our people, systems and strategy remain innovative and focused on delivering excellence.

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Directors' report

Statement of Corporate Governance (continued)

The Company shares in common its Chief Executive Officer and Chief Financial Officer with 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 subsidiary and therefore some narrative may not be directly relevant to the Company.

Principle 1 – Purpose and Leadership

As one of the UK's most trusted resource and waste management businesses, we are a modern progressive company and pride ourselves on innovation. FCC is uniquely placed to provide services in an ever changing waste sector. With a clear focus on releasing the full potential from the resources it collects, the business continues to focus on greater volumes of recycling and the generation of green energy in line with Government policy.

FCC has invested in a wide range of waste management facilities that aim to minimise the amount of waste disposed of at landfill sites by processing the material to ensure it reaches its full potential as a valuable energy resource.

In considering the impact of coronavirus upon our stakeholders, our principal concern was and remains, the wellbeing of our employees and the communities within which they undertake their tasks. During the period, our priority was to ensure the protection and wellbeing of our employees and communities, whilst mitigating the impact upon the essential services we provide; especially those which impact on public health. To achieve this, we maintained a programme of continuous engagement with our stakeholders through planning, re-engineering, monitoring and review activities.

Principle 2 – Board Composition

The Board is collectively responsible for promoting the long term success of our business. The Company has two directors, comprising of the Chief Executive Officer and Chief Financial Officer to ensure that the effectiveness and accountability of the Board fulfils the strategic needs of the Company.

The Board leads and provides direction by promoting effective decision making and supports the delivery of the Company's strategy.

Our Senior Management Team (SMT), with its extensive expertise, skills and professional backgrounds, provides the Board with 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 SMT, with the expertise to allow them to independently, effectively and objectively focus on the issues specific to their division.

The Board receives monthly updates from the SMT, providing an overview of each division both in terms of performance and strategy, but also issues relating to wider stakeholder matters.

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. The SMT team oversee the day to day responsibilities and opportunities of our exceptional workforce.

The Board has established and maintained effective corporate governance with reference to the Group's four values:

- Environmental commitment: Ensure what we do is environmentally and socially responsible
- Forward thinking: Embrace change and prepare for the future
- People focus: Value, reward and motivate our team
- Doing the right thing: Secure our future by being better at what we do
- We want our company to be shaped by the values we hold and through the people we work with, as we all work together towards the same goal. This starts with how we treat our employees, our colleagues and our customers.

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Directors' report

Statement of Corporate Governance (continued)

Principle 3 – Directors Responsibilities (continued)

These 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.

FCC continues to put its people first when it comes to their health, safety and wellbeing. To measure this, we use software to run monthly engagement surveys.

Keeping ourselves, our customers and our visitors safe are at the centre of the business values and the Directors at FCC together with the SMT, never lose sight of the potential hazards that exist in the workplace. The Company's health and safety performance and awards during the period are set out in the Non-financial KPIs in our accounts

The Code of Ethics and Conduct suite provides practical insight into the values shared across the FCC Group, and enables a more robust culture of compliance and supporting the creation of long term value for our projects.

Principle 4 – Opportunity & Risk

In 2020, FCC entered into a new investment partnership with iCON Infrastructure LLP, aimed at fast-tracking investment into our existing Energy from Waste facilities in the UK, at Allington, Eastcroft, Greatmoor, Lincoln and Millerhill, along with the potential for new low carbon energy plants. FCC and iCON will join together their expertise and resources in providing low carbon energy infrastructure to help the UK meet its net zero ambitions and contribute to a better environmental outlook.

We want to be known as a company that looks after the needs of its customers and the environment. Our focus is to build a reputation for providing sustainable solutions that helps clients meet their legislative, corporate responsibility and commercial requirements. To do this, we are placing recycling and green energy at the heart of our business, along with a strong focus on waste management solutions for our commercial, industrial and municipal customers.

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 are set out in detail in our 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, with robust measures in place to identify risks and assess, consider, manage and prioritise any impact.

Principle 5 – Remuneration

The remuneration of the FCC UK Board members is controlled by its parent company, Fomento de Construcciones y Contratas, S.A. The regulations of the Board of Directors stipulates that the remuneration of directors should be in reasonable proportion to the importance of the company, its economic situation at all times and the market standards for comparable companies. The aim of the established remuneration system is to promote the long-term profitability and sustainability of the company, and should include the necessary precautions to avoid excessive risk taking and reward for unfavourable results.

The Board promotes 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 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. Our latest gender pay gap data for 2021 slightly favoured women with a mean of 1.43% and a median of 1.6%.

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Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders

The Board is committed to promoting accountability and transparency with all stakeholders, fostering effective stakeholder relationships and meaningful engagement. We wish to build honest and enduring relationships, and seek to work with others, who share our ethics in compliance, and our commitments to the safety and wellbeing of our employees.

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

- Over 2,500 employees (9 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

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 in the Strategic report and remain compliant with applicable laws and regulations. The Directors' report sets out details of our employee engagement programme.

In 2021, the Company engaged with various stakeholders and below are some examples:

FCC Communities Foundation, is a not for profit business that awards grants to communities, environmental and heritage projects through the Landfill Communities Fund and the Scottish Landfill Communities Fund. Funding is donated by FCC as part of the voluntary environmental tax credit scheme to divert a small percentage of landfill tax to projects in England and Scotland.

There are two grant programmes:

- FCC Community Action Fund (CAF) – for projects in England, this programme has 4 rounds per year. Applicants can apply for funding of between £2,000 and £100,000 and the total project cost must not exceed £500,000.
183 applicants applied for CAF funding during 2021 and 132 projects were awarded funding totalling £6,159,609.
- FCC Scottish Action Fund (SAF) – for projects based in Scotland, this programme has 2 rounds per year. Applicants can apply for funding of between £2,000 and £40,000 and the total project cost must not exceed £250,000.

28 Applicants applied for SAF funding during 2021 and 19 projects were awarded funding totalling £524,976.

In January 2021 the Winners of the Wychavon sunflower competition were awarded £20 Amazon vouchers. The competition was run in partnership between Wychavon and FCC Environment.

Also in January FCC Environment successfully completed a best practice, Five Star Occupational Health and Safety Audit conducted by the British Safety Council demonstrating its commitment towards the continual improvement of our health and safety management systems and associated arrangements.

In February FCC Environment once again supported the National Apprenticeship week which ran from the 8th to the 14th February.

Also in February, FCC Environment trialled environmentally friendly electric vehicles across the Wychavon District. More trials are planned to better understand how electric vehicles might work across the contract. As FCC is committed to the fight against climate change, a range of alternative fuel vehicles were considered to source a cost effective, efficient solution.

RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders

In March FCC Environment supported various projects sponsoring the 'Re-use and Grow' gardening challenge, creating the opportunity for students to use critical thinking about their environment and how they could contribute to a more sustainable future for their generation and generations to come.

Also in March, FCC Environment supported the Chorley Council's Green Agenda by planting 1,000 trees along the river Yarrow. Their goal is to plant 116,000 trees in the borough by 2025, one for every Chorley resident.

In April 2021, High Heavens waste transfer station welcomed the BBC's The One Show's 'Dom Digs In'. In the show Dom got to see first hand the different stages of non-recyclable household waste went through after being collected from the kerbsides.

In May, FCC Environment celebrated International Women in Engineering Day to raise the profile of women who work in engineering, as well as highlighting the wide ranging career opportunities available to women in the waste and energy sector.

In July, FCC Environment sponsored the Child of Courage Award in the annual Luton Best Award scheme, designed to celebrate the achievements of truly remarkable individuals and organisations who make Luton a better place.

Also in July, as part of National Thank You Day, staff at High Heavens were visited by local charity Seerah and recognised for all the hard work they had done in lockdown. Gifts were delivered and a "Thank You" poster displayed for a week.

In August, Hull & East Riding residents were urged to return medical equipment that was no longer needed as part of a new NHS initiative to reuse and recycle items such as crutches and commodes. Hull & East Riding councils, along with FCC Environment, aimed to reduce the NHS carbon footprint and wherever possible, reuse items which are in short supply.

In November, FCC Environment and Buckinghamshire Council issued a thank you to their residents as over 500 tonnes worth of reusable items had been donated to the nine recycling centres across the county. The pre-loved bargains are available for sale at the two reuse shops and proceeds from the shops benefit the South Bucks Hospice at Butterfly House.

In December Wigan Council and FCC Environment wanted to help out those less fortunate, so staff at the Recycling Centres collected books and toys for good causes. They contacted Wigan Youth Zone who took delivery and put them to good use. The Wigan Armed Forces helped with cleaning the books and toys beforehand, for Covid reasons. The Wigan staff also wore Christmas jumpers and raised money for charity.

Post balance sheet events

The conflict between Russia and Ukraine is a post balance sheet event that remains ongoing at the date of approval of the financial statements. See note 19 for details of the considerations and implications on the Group.

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Directors' report

Directors' responsibilities statement

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including 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 in accordance with Section 10 of FRS 102 and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

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

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

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



V F Orts-Llopis
Director

28 September 2022

RE3 Limited

Independent auditor's report to the members of RE3 Limited

Opinion

We have audited the financial statements of RE3 Limited for the year ended 31 December 2021 which comprise the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

RE3 Limited

Independent auditor's report to the members of RE3 Limited

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 13, 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.

RE3 Limited

Independent auditor's report to the members of RE3 Limited

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

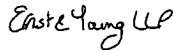
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework including, United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and the Companies Act 2006 and the relevant tax compliance regulations in the UK. The Company also has to comply with general data protection regulations ('GDPR'), Health & Safety at Work Act, EU Directive on the Landfill of Waste, Environmental Permitting (England and Wales) Regulations, Employment Rights Act, Landfill Tax Regulations and Environmental Regulations.
- We understood how RE3 Limited is complying with those frameworks by making enquiries of management to understand how the Company maintains and communicates its policies and procedures in these areas. We corroborated this by reviewing supporting documentation to validate that the Company has a process for monitoring legal requirements and has a process for reporting matters of non-compliance and taking appropriate action.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by gaining an understanding of the Company's policies and making enquiries of management and those charged with governance. We also used data analytics and obtained the entire population of journals for the year, identifying the specific transactions for further investigation based on certain risk criteria. We understood the items identified for testing and agreed them to source documentation.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved, enquiry of management and those charged with governance as to any fraud identified or suspected in the period or any actual or potential litigation or claims or breaches of significant laws or regulations applicable to the Company, auditing the risk of management override of controls through enquiry of management as well as testing of a sample of journal entries based on certain risk criteria, challenging the judgements made by management through corroborating the basis for those judgments and considering contradicting evidence and reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://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.

DocuSigned by:


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Kate Jarman (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

29 September 2022

RE3 Limited

Statement of comprehensive income For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue	4	24,403	25,907
Staff costs	6	(398)	(391)
Other operating expenses		(18,541)	(21,142)
Depreciation and amortisation		(1,542)	(1,542)
Operating profit		3,922	2,832
Finance income	7	1	26
Finance costs	7	(1,652)	(1,819)
Profit before taxation	5	2,271	1,039
Tax on profit	8	(1,143)	(394)
Profit for the financial year		1,128	645
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		1,407	31
Tax relating to items that may be reclassified		(129)	69
Total comprehensive income for the year		2,406	745

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

RE3 Limited

Balance sheet As at 31 December 2021

	Note	2021 £'000	Restated 2020 £'000
Fixed assets			
Tangible assets	9	<u>15,289</u>	<u>16,831</u>
Current assets			
Debtors: amounts due within one year	10	4,680	5,168
Debtors: amounts due after more than one year	10	1,500	1,500
Deferred tax	14	577	706
Cash and cash equivalents		<u>13,170</u>	<u>13,298</u>
		<u>19,927</u>	<u>20,672</u>
Creditors: amounts falling due within one year	11	<u>(6,214)</u>	<u>(7,839)</u>
Net current assets		<u>13,713</u>	<u>12,833</u>
Total assets less current liabilities		<u>29,002</u>	<u>29,664</u>
Creditors: amounts falling due after more than one year	12	<u>(22,732)</u>	<u>(25,897)</u>
Provisions for liabilities	14	<u>(737)</u>	<u>(640)</u>
Net assets		<u>5,533</u>	<u>3,127</u>
Capital and reserves			
Called-up share capital	15	10	10
Cash flow hedging reserve		(1,743)	(3,021)
Profit and loss account		<u>7,266</u>	<u>6,138</u>
Total shareholder's funds		<u>5,533</u>	<u>3,127</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 28 September 2022. 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 2021

	Called-up share capital £'000	Cash flow hedging reserve £'000	Profit and loss account £'000	Total £'000
Year ended 31 December 2021				
At 1 January 2021	10	(3,021)	6,138	3,127
<i>Other comprehensive income</i>				
Change in fair value of hedging interest rate swap	-	1,407	-	1,407
Tax related to losses recognised in equity	-	(129)	-	(129)
<i>Comprehensive income</i>				
Profit for the year	-	-	1,128	1,128
Total comprehensive income	-	1,278	1,128	2,406
At 31 December 2021	10	(1,743)	7,266	5,533
Year ended 31 December 2020				
At 1 January 2020	10	(2,985)	6,970	3,995
Reclassification of interest rate swaps previously treated as ineffective	-	(136)	136	-
Prior year restatement (note 2)	-	-	(1,613)	(1,613)
At 1 January 2020 - restated	10	(3,121)	5,493	2,382
<i>Other comprehensive income/(expense)</i>				
Change in fair value of hedging interest rate swap	-	31	-	31
Tax related to gains recognised in equity	-	69	-	69
<i>Comprehensive income</i>				
Profit for the year	-	-	645	645
Total comprehensive income	-	100	645	745
At 31 December 2020 - restated	10	(3,021)	6,138	3,127

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

1. Corporate information

RE3 Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006, registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic report.

2. Accounting policies

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

General information and basis of accounting

The financial statements have been prepared under the historical cost convention 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. The equivalent disclosures can be found in the consolidated financial statements of Fomento de Construcciones y Contratas, S.A., copies of which can be obtained from the address in note 20.

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.

Restatement of comparatives

Following the discovery of an error in the recognition of profit in the financial statements prior to 1 January 2020, the comparative balance sheet and brought forward profit and loss account as at 1 January 2020 have been restated. The post tax impact on net assets at 1 January 2020 is a reduction of £1,613,000.

Certain balance sheet accounts have also been restated as per the table below, due to a misallocation in balances not being netted off within the correct accounts. As such, their previous classification was incorrect. Please see note 10 and note 11 for a more detailed breakdown of the impact of the restatement.

<i>Balance Sheet</i>	Previous £'000	Adjustment £'000	Restated £'000
Debtors: amounts due within one year (note 10)	4,944	224	5,168
Creditors: amounts falling due within one year (note 11)	(6,002)	(1,837)	(7,839)
		<u>(1,613)</u>	
Reduction in net assets			
		<u>(1,613)</u>	
Profit and loss account	7,751	(1,613)	6,138

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

2. Accounting policies (continued)

Going concern

At 31 December 2021 the Company had net assets of £7.2million and net current assets of £15.4million.

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 directors have reviewed projected cash flows and carefully considered the risks to the Company's performance and cash flows for the forthcoming period of twelve months following the date of signing of the financial statements. They have identified no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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.

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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

2. Accounting policies (continued)

Taxation (continued)

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.

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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

2. Accounting policies (continued)

Financial instruments (continued)

- (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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

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.

- Derivative financial instruments – The Company uses hedging instruments to reduce exposure to interest rate movements. These instruments are remeasured to their fair value at each reporting date. There is uncertainty in estimates of future interest rates, which can be affected by global events. The full policy can be found within the financial instruments accounting policy in note 2.

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 2021

5. Profit before taxation

	2021 £'000	2020 £'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 £10,000 (2020: £13,500) has been met by FCC Recycling (UK) Limited, a fellow subsidiary undertaking of FCC.

6. Staff costs

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

	2021 Number	2020 Number
Administrative	<u>9</u>	<u>9</u>

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	351	340
Social security costs	35	36
Other pension costs (see note 17)	12	15
	<u>398</u>	<u>391</u>

None of the Directors received any remuneration or other benefits through the Company during the year ended 31 December 2021 or the previous financial year.

P Taylor and V F Orts-Llopis are remunerated as directors or employees of FCC Environment (UK) Limited, a fellow FCC UK subsidiary, for services to FCC's UK Environment division as a whole and it is not therefore possible to directly attribute any element of their remuneration to the Company.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

7. Net interest expense

Finance income

	2021 £'000	2020 £'000
Bank interest receivable	1	26

Finance costs

	2021 £'000	2020 £'000
Bank charges and similar costs	71	68
Loan interest payable	1,581	1,751
	<u>1,652</u>	<u>1,819</u>

8. Tax on profit

The tax charge comprises:

	2021 £'000	2020 £'000
Current tax		
United Kingdom corporation tax at 19% (2020: 19%) based on profit for the year	627	371
Adjustment in respect of prior years	419	9
Total current tax	<u>1,046</u>	<u>380</u>
Deferred tax		
Origination and reversal of timing differences	6	(47)
Adjustment in respect of prior years	91	61
Total deferred tax (see note 14)	<u>97</u>	<u>14</u>
Tax on profit	<u>1,143</u>	<u>394</u>

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. As a result deferred tax balances as at 31 December 2021 are measured at 25% (2020: 19%).

On 23 September 2022, the Chancellor of the Exchequer announced that the UK corporation tax rate will remain at 19% from 1 April 2023 - reversing a previously enacted measure to increase the rate to 25%. The announcement of the reversal in the tax rate from 1 April 2023 was not enacted or substantively enacted at the balance sheet date and accordingly has no impact on the tax balances at 31 December 2021.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

8. Tax on profit (continued)

The total tax charge for both the current and previous year differs from the average standard rate of 19% (2020: 19%) for the reasons set out in the following reconciliation:

	2021 £'000	2020 £'000
Profit before tax	2,271	1,039
Tax on profit at average standard rate	431	197
Effects of:		
Non-taxable items	202	127
Adjustment in respect of prior years – change of tax rate	202	-
Adjustment in respect of prior years – other	308	70
Total tax charge	1,143	394

9. Tangible fixed assets

	Plant and machinery £'000	Waste treatment assets £'000	Total £'000
Cost			
At 1 January 2021 and 31 December 2021	145	36,195	36,340
Depreciation			
At 1 January 2021	145	19,364	19,509
Charge for the year	-	1,542	1,542
At 31 December 2021	145	20,906	21,051
Net book value			
At 31 December 2021	-	15,289	15,289
At 31 December 2020	-	16,831	16,831

Waste treatment assets include bid development costs with a net book value of £2,166,000 (2020: £2,386,000) after charging £218,000 (2020: £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 2021

10. Debtors

	2021 £'000	Restated 2020 £'000
Amounts due within one year		
Trade debtors	3,659	4,352
Amounts due from group undertakings	10	10
Prepayments	1,011	806
	<u>4,680</u>	<u>5,168</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.

Amounts due from group undertakings after more than one year are unsecured, interest free and are repayable on 31 March 2031.

Further details of the restatement of prior year balances within the above figures is shown below:

	Previous £'000	Adjustment £'000	Restated £'000
Trade debtors	2,787	1,565	4,352
Amounts due from group undertakings	2,157	(2,147)	10
Prepayments	-	806	806
	<u>4,944</u>	<u>224</u>	<u>5,168</u>

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

11. Creditors: amounts falling due within one year

	2021 £'000	Restated 2020 £'000
Bank loan (unsecured) (note 13)	1,579	1,335
Less prepaid bank arrangement fees	(25)	(25)
Accrued interest on unsecured bank loans	239	293
Trade creditors and accruals	2,716	2,471
Other tax and social security	346	280
Amounts owed to group undertakings	1,202	3,328
Accrued interest on unsecured subordinated loan notes issued to RE3 Holding Limited	157	157
	<u>6,214</u>	<u>7,839</u>

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

Further details of the restatement of prior year balances within the above figures is shown below:

	Previous £'000	Adjustment £'000	Restated £'000
Bank loan (unsecured) (note 13)	1,335	-	1,335
Less prepaid bank arrangement fees	(25)	-	(25)
Accrued interest on unsecured bank loans	-	293	293
Trade creditors and accruals	549	1,922	2,471
Other creditors	280	(280)	-
Amounts owed to group undertakings	3,706	(378)	3,328
Other tax and social security	-	280	280
Accrued interest on unsecured subordinated loan notes issued to RE3 Holding Limited	157	-	157
	<u>6,002</u>	<u>1,837</u>	<u>7,839</u>

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

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

	2021 £'000	2020 £'000
Bank loan (unsecured) (note 13)	13,894	15,472
Less prepaid bank arrangement fees	(169)	(194)
Amounts owed to group undertakings	1,500	1,500
Unsecured subordinated loan notes issued to RE3 Holding Limited	5,195	5,195
Interest rate swaps	2,312	3,924
	<u>22,732</u>	<u>25,897</u>

Amounts due from group undertakings after more than one year are unsecured, interest free and are repayable on 31 March 2031.

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.

13. Borrowings

	2021 £'000	2020 £'000
Bank loan (unsecured)	15,473	16,807
Unsecured subordinated loan notes issued to RE3 Holding Limited	5,195	5,195
Less prepaid bank arrangement fees	(194)	(219)
Interest rate swaps	2,312	3,924
	<u>22,786</u>	<u>25,707</u>

Interest on the unsecured bank loans is payable at LIBOR plus 1.25%, fixed by means of an interest rate swap.

From 1 January 2022, LIBOR has been replaced by an equivalent rate, calculated by using a risk-free rate (SONIA) and adding a fixed Credit Adjustment Spread of 0.27660.

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.

	2021 £'000	2020 £'000
Maturity profile		
Due within one year	1,579	1,335
Between one and two years	1,910	1,579
Between two and five years	4,961	5,184
Due after more than five years	14,530	17,828
	<u>22,980</u>	<u>25,926</u>
Less prepaid loan arrangement fees	(194)	(219)
	<u>22,786</u>	<u>25,707</u>

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

14. Deferred tax

	Asset £'000	Liability £'000	Net £'000
Deferred taxation			
At 1 January 2021	706	(640)	66
Charge to statement of comprehensive income	-	(97)	(97)
Recognised in equity	(129)	-	(129)
At 31 December 2021	577	(737)	(160)

	2021	2020
	£'000	£'000
Deferred tax asset/(liability) comprises:		
Accelerated capital allowances	(737)	(640)
Hedging interest rate swap	577	706
	(160)	66

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

15. Called-up share capital and reserves

	2021	2020
	£'000	£'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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

16. Financial instruments

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

	2021 £'000	2020 £'000
Financial assets		
<i>Measured at undiscounted amount receivable</i>		
- Trade and other debtors (see note 10)	3,659	4,352
- Amounts due from related undertakings (see note 10)	1,510	1,510
	<u>5,169</u>	<u>5,862</u>
Financial liabilities		
<i>Measured at fair value and designated in an effective hedging relationship</i>		
- Derivative financial liabilities (see note 13)	2,312	3,924
<i>Measured at amortised cost</i>		
- Loans payable (see note 11,12)	20,474	21,783
<i>Measured at undiscounted amount payable</i>		
- Trade and other creditors (see note 11)	366	280
- Amounts owed to related undertakings (see note 11, 12)	2,702	4,828
	<u>25,834</u>	<u>30,815</u>

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

	2021 £'000	2020 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	1	26
Total interest expense for financial liabilities at amortised cost	1,652	1,819

17. Pension contributions

The Company participates in the defined contribution scheme operated by FCC E UK on behalf of its eligible employees. The assets of this scheme are held separately from those of the Company in independently administered funds. There were no outstanding or prepaid contributions at the end of the year in respect of defined contribution schemes. Contributions under defined contribution schemes amounted to £12,000 during the year (2020: £15,000).

18. Related party transactions

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

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

	Payables 2021 £'000	Payables 2020 £'000
FCC Buckinghamshire Limited	-	(720)

RE3 Limited

Notes to the financial statements For the year ended 31 December 2021

19. Post balance sheet events

Following the balance sheet date, Russia entered a military conflict with Ukraine and this action remains ongoing at the date of approval of the financial statements. The conflict has resulted in elevated levels of political instability and uncertainty across Europe and contributed to significantly higher fuel prices (gas, electricity and oil derived products) as well as impacting supply chains.

The directors have considered the likely impacts on the business from the resultant inflation and supply chain disruption and continue to engage with suppliers to monitor and manage any potential issues. The Group and the Company has limited exposure to overseas markets as its customer base arises entirely in the United Kingdom. The Group and the Company is well positioned to withstand the worst impacts.

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.