

Company Registration No. 05663734

RE3 Limited

**Annual report and financial statements
for the year ended 31 December 2022**

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Annual report and financial statements 2022

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Annual report and financial statements 2022

Officers and professional advisers

Directors

P Taylor (resigned 1 August 2023)
S J Longdon (appointed 2 August 2023)
V F Orts-Llopis

Registered Office

3 Sidings Court
White Rose Way
Doncaster
United Kingdom
DN4 5NU

Independent auditor

Ernst & Young LLP
Statutory Auditor
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR
United Kingdom

RE3 Limited

Strategic report

The Directors present their strategic report on the affairs of RE3 Limited (“the Company”) for the year ended 31 December 2022.

Overview of Group

The Company is an indirect subsidiary of FCC Environment (UK) 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.

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 45 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. 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 waste infrastructure to support sustainable waste management and strategic long-term partnerships as key to the Group’s future business growth. It anticipates continuous activity and deployment of Group resources into recycling facilities, renewable energy projects, the development of innovative waste treatment solutions and the provision of regional waste management services and facilities. Energy from Waste (“EfW”) is a key component of the UK’s waste and resource strategy and, in combination with other treatment, recycling and recovery operations, backed up by landfill disposal for residues, is a strategy that represents a long term sustainable solution for meeting the Group’s clients’ diversion targets and for reducing our carbon footprint.

Principal activities

The principal activity of the Company during the year ended 31 December 2022 was the provision of waste management services under a Public Finance Initiative (“PFI”) contract for Reading Borough Council, Bracknell Forest Borough Council and Wokingham District Council (the “Councils”), known as the RE3 Waste partnership (the “RE3 Waste Partnership”).

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

The Group is one of the UK’s leading waste management, recycling, and renewable energy service businesses. It is a key player within the municipal waste management sector, with over 60 Local Authority clients across England, Wales, and Scotland.

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 2022, the Group received, treated, recycled, and disposed of 7.8million (2021: 7.9million) tonnes of household, commercial and industrial waste and managed around 160 operational 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 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.

Early in 2022 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 Company has limited exposure to overseas markets as its customer base arises entirely in the United Kingdom. The Group is well positioned to withstand the worst impacts.

Results, dividends, and key performance indicators

The results for the year ended 31 December 2022 are set out on page 20. The profit for the financial year ended 31 December 2022 amounted to £0.5million (2021: £1.1million). The Directors paid an interim dividend of £3.5million (2021: £nil). The Directors do not recommend the payment of a final dividend (2021: £nil).

For the year ended 31 December 2022, revenue from continuing activities increased to £24.5million (2021: £24.4million). The result reflects a small increase 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 2022, operating profit decreased by 43.7% to £2.2million (2021: £3.9million), the main drivers being higher waste disposal charges and maintenance costs.

Cash at 31 December 2022 was £9.8million (2021: £13.2million).

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 2022/23 being £6,392 (2021/22: £1,752), this consisting of mainly turnaround failures for council vehicles remaining on site for longer than twenty minutes. The increase year on year being due to the sites increased volume of traffic and additional waste streams being managed within the transfer stations. There were no financial penalties for the sites being totally unavailable.

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Strategic report

Financial and Non-Financial KPIs (continued)

- **Waste Management Performance** – The Company is required to meet targets for the effective processing of compostable, Energy From Waste (EFW) and recyclable materials. Performance against these targets is measured with and linked to the payment mechanism of the RE3 Contract with the RE3 Waste Partnership and therefore represents a key indicator of both the operational and financial performance of the business. In contract year 2022/23 the Company exceeded the relevant EFW targets, despite a year on year decrease in overall Municipal Solid Waste (“MSW”). Tonnage sent to EFW (2022/23: 69.0k tonnes / 2021/22: 73.1k tonnes). The decrease was a result of some unavailability at the third party EFW facility. The overall tonnage level of recycling and composting in 2022/23 was down year on year, this being a result of an overall drop in total waste tonnage collected. The overall level of Recovery / Landfill Diversion continued to be good at 92%.

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.

At FCC Environment, we wholeheartedly support the drive to more and better resource efficiency by reducing waste at source where possible – including the prevalence of single use plastics, reusing what we can and recycling valuable commodities. EfW is currently the best available and best proven technology to recover maximum value from end-of-life waste as an alternative to landfill. In doing so, EfW is contributing to reductions in landfill emissions, while also producing electricity – with the potential for heating local communities. The Group will also continue to pursue its stated four prong strategy of owning the waste, maximising the value of resource and investment in alternative waste treatment infrastructure and energy recovery technology whilst promoting the reduction of our carbon footprint.

Principal risks and uncertainties

Operating in the UK’s highly regulated waste management market 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:** The Group remains aware of the potential for disruption from new variants and is confident that it has appropriate procedures and action plans in place.
- **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 recognise shorter term uncertainty as a result of the Covid pandemic, Brexit and the Ukraine conflict, which have created inflationary pressures. This could result in higher borrowing costs generally. 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 over the year 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.

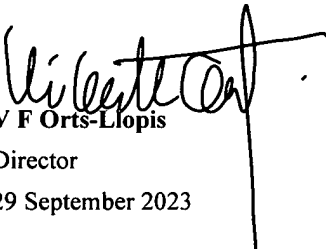
Details of our strategy are set out on page 2 of the Strategic report and pages 8-9 of the Directors' report. The Strategic report highlights performance in the year against that strategy together with future trends and developments.

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 12-15 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
29 September 2023

RE3 Limited

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2022. 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 2022 and up to the date of this report:

P Taylor (resigned 1 August 2023)

S J Longdon (appointed 2 August 2023)

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 years during and since the pandemic and the challenges it 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.

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 company successfully implemented hybrid working practices for non-operational roles during 2022 and continues to keep in place appropriate safety measures.

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

The 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

The directors recognise their responsibilities under Section 172 Companies Act 2006, which places them in a position of trust with regards to broader stakeholder interests when carrying out their duties to promote the success of the company.

For the year ended 31 December 2022, 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 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 FCC Board proudly supports the waste industry in driving greater action on carbon emissions, to which our EfWs are making an important contribution. Together with the business as a whole “Net Zero” has taken front of stage, and we are proud to support the industry in driving greater action on carbon omissions. Along with the introduction of electric vehicle trials and the provision of rail hubs, which mark a significant reduction in road haulage, these moves make us resilient, responsive, and most importantly, sustainable.

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

Principle 1 – Purpose and Leadership

As one of the UK's most trusted resource and waste management businesses, we are a modern progressive company and pride ourselves on innovation and being part of a huge shift in attitudes and changing operations. As COP26 took place in the UK in 2021, we were able to take stock of our achievements, and recognise the innovation and dedication taking place within our business. FCC is uniquely placed to provide services in an ever changing waste sector, turning our attention to carbon impact, driving reuse at our local authority sites and reducing the carbon associated with our day to day activities. At heart we are a recycling company, but we also take our stewardship seriously.

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. Also, through land restoration, we carefully manage our sites to provide valuable habitats, grow low carbon fuels and even process contaminated soils for reuse.

At FCC, we look after the detail, all the while playing an active role on the industry stage. We contribute to policy debate with industry bodies such as the EA, WISH, BSC etc., while making sure the day to day details are taken care of. Above all, we value resources and tailor our services to maximise value. In 2021, FCC launched a comprehensive new report, “Mapping the Politics of Waste” to examine the legislative changes and key challenges facing the waste and recycling sector. The report also set out the opportunities for the industry in the run up to the 2024 General Election.

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

Principle 2 – Board Composition

The 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 focus independently, effectively, and objectively 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, as well as issues relating to wider stakeholder matters.

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Directors' report

Statement of Corporate Governance (continued)

Principle 3 – Directors Responsibilities

The Board supports our talented workforce, upholds our commitment to sustainability and has collective responsibility for the strategy of the Group, which is outlined in our strategic report on page 2. 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. These values are the most important hallmarks of our Group.

Our 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. This will enable us to continue to contribute 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. In order to measure this, we use Workday software to run engagement surveys every two months. This helps us to identify issues that are important to our staff and that we can action. We can also measure responses to specific issues we want feedback on. This helps us formulate and improve the employee experience.

Keeping ourselves, our customers,

and our visitors safe is 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.

In 2022 FCC submitted itself to a 3rd British Safety Council 5 Star Audit process, where it attained a score of 97.71% A score of 92% - 100% = (Excellence) = 5 Star Rating. This exceeds previous scores of 93.91% and 94.97% in 2016 and 2020. This is an excellent track record showing a record of continual improvement. We hope to be awarded our third Sword of Honour in 2023.

The Code of Ethics and Conduct suite provides practical insight into the values shared across the FCC Group, enables a more robust culture of compliance and supports the creation of long term value for our projects. Supported by our Spanish parent company, the Compliance Committee regularly review our governance protocol and continually seek to improve our Policies and Procedures. Through training and expert guidance, the Committee oversee the Stewardship of the Group, ensuring the highest standards are always maintained.

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 combine 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.

Risk and Opportunity management is a central and integral part of the FCC's strategic management process, providing a platform to ensure that the risks and opportunities attached to the business form part of the activities in achieving FCC's strategic goals. FCC undertakes a number of waste management activities that are exposed to a range of socio-economic settings and regulatory frameworks, meaning it is exposed to both the inherent risks of its activities and those associated within the wider waste industry.

Risk and opportunity management is a culture, process, and structure to identify potential risks that will affect the business or opportunities which could enhance it.

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Directors' report

Statement of Corporate Governance (continued)

Principle 4 – Opportunity & Risk (continued)

The process of risk and opportunity management also provides management with a tool to improve decision making and offers a framework to effectively manage uncertainties, adequately respond to risks and identify opportunities to ensure that values are created, protected, and enhanced.

FCC has a Risk and Opportunities Management Model designed to obtain a reasonable level of security concerning the achievement of strategic and financial objectives, effectiveness and efficiency in the operations, compliance with the legislation and reliability of information. This Model is based on actions to implement, develop, and continuously improve a framework and a structure that integrates the risk and opportunities management process into the organisation's Corporate Governance, the preparation of the strategy and the planning, management and information processes, all while remaining aligned with the values and the culture of the business.

This process is designed to identify possible events that could affect the organisation's objectives and to manage uncertainty within the accepted level of risk in order to find a balance between growth, profitability and associated risks.

The principal risks and uncertainties affecting the Group are set out in detail in our Strategic Report.

Principle 5 – Remuneration

The remuneration of the FCC UK Board members is controlled by its parent company, FCC SA. 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.

The principal risks and uncertainties affecting the Group are set out in detail in our Strategic Report.

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 2022 reported that we had no gap for women in our workforce during the snapshot period. This is because we have a high proportion of women in non-manual support, technical and managerial roles within the business. These roles are typically paid higher than male dominated roles.

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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. This also helps us overcome current challenges and understand future requirements, provide advice & develop innovative and cohesive solutions that meet these future challenges by using both our local and industry knowledge.

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

- Over 2,300 employees in the UK (11 in the Company)
- 100 major contracts with a total of 60 local authorities
- 280 UK sites of which 166 are operational. We operate 88 HWRCs, 37 Transfer Stations and 9 MRFs
- 7 PFI and PPP Contracts
- 6,000 business waste customer agreements
- Over 2,500 customer accounts

Our people are outstanding. We attract committed, creative thinkers, and work hard to help them thrive. Our collection crews are award-winners, and our graduates, managers, engineers and leaders value teamwork, partnership and add value at every stage of our business.

We collect and recycle waste from 1.3million people in the UK, of which 1.1m tonnes are recycled. We collected 1,808 tonnes of reuse material through our Re-Use Scheme. The Re-Use shops generated £1.7m in revenue for our charity partners.

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 via industry organisations such as ESA and WISH is critical to ensuring that we manage the risks set out in the Strategic report and remain compliant with applicable laws and regulations.

In 2022, the Group engaged with various stakeholders and below are some examples:

FCC Communities Foundation is a not for profit company 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 a voluntary environmental tax credit scheme to divert a small percentage of landfill tax to projects in England and Scotland.

FCC Communities Foundation currently operates two open grant programmes and an invitation only programme:

- FCC Community Action Fund (CAF) – for projects in England, this programme has four 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. 170 applicants applied for CAF funding during 2022 and 109 projects were awarded funding totalling £5,567,770.
- FCC Scottish Action Fund (SAF) – for projects based in Scotland, this programme has two 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. 31 Applicants applied for SAF funding during 2022 and 14 projects were awarded funding totalling £359,648.
- FCC Flagship Programme – for organisations in England invited by the Board of FCC Communities Foundation to apply for regionally or nationally significant projects where the level of funding required prohibits them from applying through the FCC Community Action Fund. 5 organisations were invited to submit applications and 4 applications were received totalling requests of £948,000. Three were awarded funding totalling £750,000.

All applicants were appraised to ensure funding went to projects which were compliant with the relevant legislation and also delivered positive and tangible outcomes for the communities.

During 2022, 120 CAF projects and 21 SAF projects completed and claimed their funding.

RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

January 2022

£41,000 was raised for Pilgrims Hospices in East Kent by collecting and recycling Christmas trees.

FCC Environment's first pop-up Repair Café was launched. A team of volunteer repairers met in Amersham ready to help people fix their belongings. FCC and Buckinghamshire Council provided support to the café by providing Portable Appliance Testing training to upskill volunteers and FCC staff were on hand to help on the day.

February 2022

FCC Environment announced that after a successful pilot scheme at its Deerplay landfill site, it was set to roll out microgeneration at nine of its landfill sites across the UK. This will allow installations to continue to operate below the 330KW thresholds, providing a more efficient and environmentally friendly operation and reduce our impact on the planet by reducing our carbon emissions through avoided omissions.

The Parliamentary Under Secretary of State in the Scotland Office visited our Millerhill Recycling and Energy Recovery Centre. He came to see for himself how waste that cannot be recycled is harnessed for energy generation. Millerhill's facility is a thermal treatment plant which process up to 155,000 tonnes of residual non-hazardous waste each year and is part of the City of Edinburgh and Midlothian councils' commitment to reducing the amount of waste being sent to landfill, in line with the Scottish Government's Zero Waste Plan.

March 2022

The team at one of our Household Waste Recycling Centres in Kent took time out from their day job to help Queenborough Town Council and Queenborough in Bloom with the preparation and painting of benches along the promenade as the Council made a start on getting the town ready for the Swale in Bloom judging.

As part of our new ways to power street cleaning and waste and recycling collection vehicles, we trialled two alternative fuels on waste and collection rounds in Wychavon. The first trial involved swapping a traditional diesel lorry for an electric refuse collection vehicle, which had a battery range of 125 miles and could operate for around 9 hours on a single charge. The second trial involved the use of Hydrotreated Vegetable Oil (HVO) to replace diesel as a fuel for the remainder of the Wychavon fleet. The fuel is made from different types of vegetable oil and could reduce greenhouse gas emissions by as much as 90% compared to diesel. The HVO is a straight drop-in diesel replacement that does not require any change to the engine.

Decarbonising waste and recycling collections was one of the key actions in Wychavon's Intelligently Green Plan to help meet the council's target to cut its own carbon emissions by 75% by 2030.

April 2022

As part of World Bee Day, which was celebrated on the 20th May, the FCC Group reported an increase to their portfolio of bug hotels. In addition to their three hotels in Poland, we now have a bug hotel here in the UK. This was in celebration of a new five year contract in Buckinghamshire. FCC and the council teamed up with a local charity "Men in Sheds" group to create bespoke bug hotels to encourage insect life and diversity at all of the sites.

May 2022

47 children from Ashford Pre School were treated to a VIP trip around the Ashford Waste and Recycling Centre where pupils were able to get up close to the items no longer wanted, so that they could understand how the items were collected, separated, and sent onwards for recycling or disposal. Before leaving, the pupils were asked to create a drawing about recycling. A collage of the winning design and the other drawings were made into artwork for the Ashford site.

The MP for West Hull and Hessle visited the reuse shop in Humberfield, run by Dove House Hospice in partnership with FCC, Hull City Council and East Riding of Yorkshire Council to see the work the organisation was doing to move resources higher up the waste hierarchy, diverting items from landfill and raising money for charity. Since opening in 2015 the shop has redirected 1,400 tonnes away from final disposal. This is the equivalent of thirty-one lorry loads. Dove House Hospice's mission is to provide expert specialist care to adults in the local area living with life limiting and terminal illness.

RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

June 2022

FCC's former Household Waste Recycling Centre at Swanton Road in Norwich re-opened as a Reuse Drop Off Centre. This is now being run in partnership with a local charity The Benjamin Foundation and one of the largest multi-material recyclers in Europe, Precycle. This helps to breathe new life into second hand items, avoiding waste going to landfill, creating social value, and raising funds for charity. Many of the items passing through the site, including fridges and freezers are now being used to help support those in need throughout Norfolk, whom The Benjamin Foundation supports via the Norfolk Assistance Scheme.

July 2022

FCC Environment hosted another Pop-Up shop in their Dix Pit Household Waste Recycling Centre as part of their reuse revolution. An impressive 1,221.1kg of material was sold and given a new lease of life. The residents enjoyed a wide range of pre-loved bargains, whilst helping the global climate emergency by preventing these items going to waste.

As part of the Kent County Show, FCC Environment, and staff from across the Mid Kent Contract together with partners Kent County Council spoke with the public about the importance of recycling as part of the climate crisis we are facing. A large focus was placed on the correct recycling of batteries which can cause fires through the collection and recycling process. They also spoke to the public about how each separated material was recycled, and how plastics were treated at recycling centres.

August 2022

FCC Environment commenced construction works on the Drumgray Energy Recovery Centre at Greengairs in North Lanarkshire. This facility will be the sister plant to Greatmoor EfW and when completed, the state of the art Energy from Waste facility will be capable of treating 300,000 tonnes of residual household and business waste per year, enough to export circa 25.5MW of electricity and the potential to supply 40MW of heat to local homes and businesses. When operational, this project will support the Scottish Government's strategy to eliminate biodegradable waste to landfill through the Scottish landfill bank, which comes into force on 31 December 2025.

September 2022

FCC Environment welcomed their new graduates after they all successfully completed their two week induction into FCC. The Graduate Programme is an 18 month in-depth experience where they are involved with major projects and get the chance to make a huge impact, working closely with their mentors who support them on their journey. Also in September, FCC Environment, together with Buckinghamshire Council and its partners South Bucks Hospice, were encouraging new students moving into digs and halls to head down to one of our two reuse shops to kit themselves out with pre-loved bargains as part of their reuse revolution, saving their pocket and the environment.

October 2022

FCC Environment were asked by the organisers of the Kóp Hill Climb's Soapbox to assist with reuse items to help stage the event. This much loved fixture is an extracurricular activity for children aged 8 to 17 to participate, design, construct and maintain competition of a soapbox cart. FCC Environment were asked if they could help provide everyday items that had been taken to the Recycling Centres, including wheels, metal frames and wooden pallets to help the children, with all items being returned for recycling after the race.

FCC Environment was proud to sponsor the Wigan Youth Climate event which took place in the borough. Wigan Council said that 120 staff and students from twelve primary schools, six high schools and two colleges across the borough took part in the youth led day.

RE3 Limited

Directors' report

Statement of Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

November 2022

The winners of a Chorley Council climate change artwork competition saw their designs come to life on the side of recycling wagons. Earlier in the year, Chorley Council and FCC invited budding young artists to get creative and enter the Chorley Council artwork competition on the topic of climate change. The two winning entries by designers aged 9 and 10 are now installed on the side of Chorley Council recycling wagons. On the 19th November, the winners visited the depot where the trucks are based to see the designs for themselves.

FCC Environment together with Harborough District Council took first place in the Horticulture Excellence within Parks Award in the East Midlands In Bloom initiative. FCC Environment carry out the waste and recycling collections as well as the grounds maintenance in the Harborough area. The aim of the competition was to encourage the improvement of the surrounds through the imaginative use of trees, shrubs, flowers, and landscaping. It also aimed to achieve a litter free and sustainable environment.

December 2022

The leader of Harborough District Council thanked the Leicestershire Litter Wombles, a volunteer litter picking group, after marking their amazing milestone of collecting 100,000 bags of litter from across Leicester and Leicestershire, and also FCC Environment for working in partnership with them.

FCC announced that we were working in partnership with the UK's leading generator of low carbon power from captured methane to develop a new solar park at Winterton, Lincolnshire. This would be due to energise in April 2023 and would generate circa 4,300 MWh of renewable energy each year, which was enough to power more than 1,300 homes.

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 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.

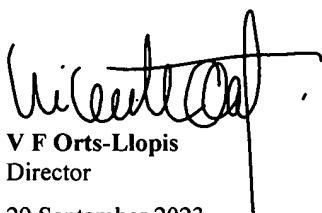
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies 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

29 September 2023

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 2022 which comprise the Balance Sheet, the Statement of comprehensive income and the Statement of changes in equity and the related notes 1 to 19, 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 FRS 102 "The Financial Reporting Standard applicable in UK and 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 2022 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 ended 31 December 2024 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 16, 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 UK and 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. We addressed 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 to supporting documentation and considering contradicting evidence.

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.


Richard Lingwood (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
29 September 2023

RE3 Limited

Statement of comprehensive income For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Revenue	4	24,515	24,403
Staff costs	6	(461)	(398)
Other operating expenses		(20,275)	(18,541)
Depreciation and amortisation		(1,573)	(1,542)
Operating profit		2,206	3,922
Finance income	7	1	1
Finance costs	7	(1,595)	(1,652)
Profit before taxation	5	612	2,271
Tax on profit	8	(103)	(1,143)
Profit for the financial year		509	1,128
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of hedging interest rate swap		2,130	1,407
Tax relating to items that may be reclassified		(532)	(129)
Total comprehensive income for the year		2,107	2,406

The notes on pages 23 to 35 are an integral part of these financial statements.

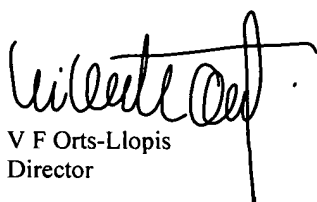
RE3 Limited

Balance sheet As at 31 December 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Tangible assets	9	14,355	15,289
Current assets			
Debtors: amounts due within one year	10	3,480	4,680
Debtors: amounts due after more than one year	10	1,500	1,500
Deferred tax	14	45	577
Cash and cash equivalents		9,831	13,170
		14,856	19,927
Creditors: amounts falling due within one year	11	(5,585)	(6,214)
Net current assets		9,271	13,713
Total assets less current liabilities		23,626	29,002
Creditors: amounts falling due after more than one year	12	(18,897)	(22,732)
Provisions for liabilities	14	(589)	(737)
Net assets		4,140	5,533
Capital and reserves			
Called-up share capital	15	10	10
Cash flow hedging reserve		(136)	(1,743)
Profit and loss account		4,266	7,266
Total shareholder's funds		4,140	5,533

The notes on pages 23 to 35 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 29 September 2023. 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 2022

	Called-up share capital £'000	Cash flow hedging reserve £'000	Profit and loss account £'000	Total £'000
Year ended 31 December 2022				
At 1 January 2022	10	(1,743)	7,266	5,533
Reclassification of reserves	-	9	(9)	-
<i>Transactions with owners</i>				
Dividend paid	-	-	(3,500)	(3,500)
<i>Comprehensive income</i>				
Profit for the year	-	-	509	509
<i>Other comprehensive income/(expense)</i>				
Change in fair value of hedging interest rate swap	-	2,130	-	2,130
Tax related to gains recognised in equity	-	(532)	-	(532)
Total comprehensive income	-	1,598	509	2,107
At 31 December 2022	10	(136)	4,266	4,140
Year ended 31 December 2021				
At 1 January 2021	10	(3,021)	6,138	3,127
<i>Comprehensive income</i>				
Profit for the year	-	-	1,128	1,128
<i>Other comprehensive income/(expense)</i>				
Change in fair value of hedging interest rate swap	-	1,407	-	1,407
Tax related to gains recognised in equity	-	(129)	-	(129)
Total comprehensive income	-	1,278	1,128	2,406
At 31 December 2021	10	(1,743)	7,266	5,533

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

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 19.

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

At 31 December 2022 the Company had net assets of £4.1million and net current assets of £9.3million.

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 ended 31 December 2024 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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

2. Accounting policies (continued)

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.

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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

2. Accounting policies (continued)

Taxation (continued)

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.
- (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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

2. Accounting policies (continued)

Financial instruments (continued)

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

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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

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.

- **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.

5. Profit before taxation

	2022	2021
	£'000	£'000
Profit before taxation is stated after charging:		
Depreciation of tangible assets - owned	1,573	1,542

Auditor's remuneration in respect of audit fees totalling £10,000 (2021: £10,000) has been met by FCC Recycling (UK) Limited, a subsidiary undertaking of FCC.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

6. Staff costs

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

	2022	2021
	Number	Number
Administrative	11	9

Their aggregate remuneration comprised:

	2022	2021
	£'000	£'000
Wages and salaries	406	351
Social security costs	41	35
Other pension costs (see note 17)	14	12
	461	398

None of the Directors received any remuneration or other benefits through the Company during the year ended 31 December 2022 or the previous financial year.

The Directors 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.

7. Net interest expense

Finance income

	2022	2021
	£'000	£'000
Bank interest receivable	1	1

Finance costs

	2022	2021
	£'000	£'000
Bank charges and similar costs	972	71
Loan interest payable	623	1,581
	1,595	1,652

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

8. Tax on profit

The tax charge comprises:

	2022 £'000	2021 £'000
Current tax		
United Kingdom corporation tax at 19% (2021: 19%) based on profit for the year	253	627
Adjustment in respect of prior years	(2)	419
Total current tax	251	1,046
Deferred tax		
Origination and reversal of timing differences	(42)	6
Adjustment in respect of prior years – change of tax rate	-	202
Adjustment in respect of prior years - other	(106)	(111)
Total deferred tax (see note 14)	(148)	97
Tax on profit	103	1,143

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 2022 are measured at 25% (2021: 25%).

The total tax charge for both the current and previous year differs from the average standard rate of 19% (2021: 19%) for the reasons set out in the following reconciliation:

	2022 £'000	2021 £'000
Profit before tax	612	2,271
Tax on profit at average standard rate	116	431
Effects of:		
Non-taxable items	95	202
Adjustment in respect of prior years – change of tax rate	-	202
Adjustment in respect of prior years – other	(108)	308
Total tax charge	103	1,143

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

9. Tangible fixed assets

	Plant and machinery £'000	Waste treatment assets £'000	Total £'000
Cost			
At 1 January 2022	145	36,195	36,340
Additions	601	38	639
At 31 December 2022	746	36,233	36,979
Depreciation			
At 1 January 2022	145	20,906	21,051
Charge for the year	29	1,544	1,573
At 31 December 2022	174	22,450	22,624
Net book value			
At 31 December 2022	572	13,783	14,355
At 31 December 2021	-	15,289	15,289

Waste treatment assets include bid development costs with a net book value of £1,948,000 (2021: £2,166,000) after charging £218,000 (2021: £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

	2022 £'000	2021 £'000
Amounts due within one year		
Trade debtors	2,484	3,659
Amounts due from group undertakings	247	10
Prepayments	749	1,011
	3,480	4,680
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.

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

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

11. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Bank loan (unsecured) (note 13)	1,730	1,579
Less prepaid bank arrangement fees	(25)	(25)
Accrued interest on unsecured bank loans	209	239
Trade creditors and accruals	995	2,716
Other tax and social security	98	346
Amounts owed to group undertakings	2,421	1,202
Accrued interest on unsecured subordinated loan notes issued to RE3 Holding Limited	157	157
	<u>5,585</u>	<u>6,214</u>

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

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

	2022 £'000	2021 £'000
Bank loan (unsecured) (note 13)	12,165	13,894
Less prepaid bank arrangement fees	(144)	(169)
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	181	2,312
	<u>18,897</u>	<u>22,732</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.

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

13. Borrowings

	2022 £'000	2021 £'000
Bank loan (unsecured)	13,895	15,473
Unsecured subordinated loan notes issued to RE3 Holding Limited	5,195	5,195
Less prepaid bank arrangement fees	(169)	(194)
Interest rate swaps	181	2,312
	<u>19,102</u>	<u>22,786</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.

	2022 £'000	2021 £'000
Maturity profile		
Due within one year	1,730	1,579
Between one and two years	1,752	1,910
Between two and five years	5,318	4,961
Due after more than five years	10,471	14,530
	<u>19,271</u>	<u>22,980</u>
Less prepaid loan arrangement fees	(169)	(194)
	<u>19,102</u>	<u>22,786</u>

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

14. Deferred tax

	Asset £'000	Liability £'000	Net £'000
Deferred taxation			
At 1 January 2022	577	(737)	(160)
Charge to statement of comprehensive income	-	148	148
Recognised in equity	(532)	-	(532)
At 31 December 2022	45	(589)	(544)
		2022	2021
		£'000	£'000
Deferred tax asset/(liability) comprises:			
Accelerated capital allowances		(589)	(737)
Hedging interest rate swap		45	577
		544	(160)

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

15. Called-up share capital and reserves

	2022 £'000	2021 £'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.

	2022 £'000	2021 £'000
Dividend paid £350 per share (2021: £nil)	3,500	-

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

16. Financial instruments

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

	2022 £'000	2021 £'000
Financial assets		
<i>Measured at undiscounted amount receivable</i>		
- Trade and other debtors (see note 10)	2,484	3,659
- Amounts due from related undertakings (see note 10)	1,747	1,510
	<u>4,231</u>	<u>5,169</u>
Financial liabilities		
<i>Measured at fair value and designated in an effective hedging relationship</i>		
- Derivative financial liabilities (see note 13)	181	2,312
<i>Measured at amortised cost</i>		
- Loans payable (see note 11,12)	18,921	20,474
<i>Measured at undiscounted amount payable</i>		
- Trade and other creditors (see note 11)	473	366
- Amounts owed to related undertakings (see note 11, 12)	3,921	2,702
	<u>23,496</u>	<u>25,834</u>

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

	2022 £'000	2021 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	1	1
Total interest expense for financial liabilities at amortised cost	1,595	1,652

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 £14,000 during the year (2021: £12,000).

18. Related party transactions

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

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

RE3 Limited

Notes to the financial statements For the year ended 31 December 2022

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. The ultimate controlling party is Control Empresarial de Capitales, S.A. de C.V., a company registered in Mexico.

Fomento de Construcciones y Contratas, S.A. is the parent company of the largest group of which the Company is a member and for which group financial statements are drawn up. FCC Environment (UK) Limited is the parent company of the smallest group of which the Company is a member and for which group financial statements are drawn up. Copies of the financial statements of both FCC Environment (UK) Limited and Fomento de Construcciones y Contratas, S.A. are available from the Company Secretary, 3 Sidings Court, White Rose Way, Doncaster, DN4 5NU.