# Melton Renewable Energy UK PLC

## £171,000,000 6.75% Senior Secured Notes due 2020

Issued by Melton Renewable Energy UK PLC

Quarterly Report (Q3 – 2015/16)

Financial Results for the quarter and nine months ended December 31, 2015

# Table of Contents

## FORWARD LOOKING STATEMENTS

Except for historical information contained herein, statements contained in this quarterly report may constitute "forward looking statements" within the meaning of U.S. securities laws and the laws of certain other jurisdictions which are based on our current expectations and projections about future events.

All statements other than statements of historical facts included herein, including, without limitation, statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures, projected costs and our plans and objectives for future operations, may be deemed to be forward-looking statements. Forward-looking statements are typically identified by words such as "aim," "anticipate," "assume," "believe," "could," "can have," "estimate," "expect," "forecast," "intend," "may," "plan," "predict," "projects," "risk," "should," "suggests," "targets," "will," "would," and words of similar meaning or the negatives of these words in connection with a discussion of future operating or financial performance. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct and that such statements are not guarantees of future performance because they are based upon numerous assumptions. You should not place undue reliance on these forward-looking statements.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industry in which we compete to differ materially from those expressed or implied by the forward-looking statements contained herein. Factors that could cause such differences in actual results include, but are not limited to:

- reduction or abandonment of, or changes in, governmental support for renewable energy sources;
- the availability and the price of biomass fuel;
- changes to the current regulatory framework;
- environmental obligations which could require decontamination works or closure of our landfill sites;
- fluctuations in market prices of electricity, oil, natural gas, carbon and other traditional fuel products;
- fluctuations in the demand for and supply of ROCs and LECs;
- our dependence on our relationships with third-party off-takers;
- the termination of our key contracts;
- variation in the output of landfill gas and the associated difficulty in predicting such output;
- our dependence on landfill site owners and operators for access to and operations on our landfill sites;
- our compliance with extensive environmental laws and regulations;
- governmental regulation of landfill sites that may restrict our operations or increase our costs of operations;
- our volatile income from recycled ROC buy-out payments;
- economic conditions and their impact on demand for electricity and the volume of waste produced;
- our ability to maintain relationships with suppliers and regulatory authorities;
- mechanical failure, equipment malfunction or technological breakdown of our assets;
- catastrophes or other unexpected physical conditions at one or more of our facilities;
- uncertainties related to the costs and duration of our regular maintenance shutdowns;
- uncertainties related to the costs and capital expenditure associated with the maintenance of our energy generating plants and assets;
- our dependence on eight landfill sites for a significant amount of our total landfill gas power generation capacity;
- uncertainties related to devolution of political powers in the United Kingdom;
- the effect of legal proceedings on our reputation, financial condition, results of operations and cash flows;
- our exposure to the risk of material health and safety liabilities;

- damage resulting from our employees and agents acting outside our policies and procedures;
- our dependence on good relations with our employees, unions and employee representatives to avoid business interruptions, implement restructurings and amend existing collective bargaining agreements;
- our inability to attract and retain key personnel;
- our ability to maintain adequate insurance coverage;
- risks related to competitors with more established and well-recognized companies, which offer similar products and services;
- the impact of changes in tax laws or challenges to our tax position; and
- other risks associated with our structure, our financial profile, the Notes and our other indebtedness discussed under "Risk Factors"(see below).

For a more complete discussion of the factors that could affect our future performance and the markets in which we operate, please read the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry and Market Data" and "Business" of the Offering Memorandum relating to the Notes (the "Offering Memorandum").

You are cautioned not to place undue reliance on these forward looking statements, which are made as of the date of this quarterly report and are not intended to give any assurance as to future results.

We undertake no obligation to, and do not intend to, publicly update or revise any of these forward looking statements, whether as a result of new information, future events or developments or otherwise.

## RECENT DEVELOPMENTS

### Change of ownership

On October 30, 2015, MEIF Renewable Energy UK PLC ("the Issuer") was acquired with funds managed by Octopus Investments and Eucalyptus Energy Limited acquired 100% of the Issuer's share capital.

On November 3, 2015, MEIF Renewable Energy UK PLC changed its name to Melton Renewable Energy UK PLC ("MRE UK"). References in the report to MRE UK include reference to MEIF Renewable Energy UK PLC prior to the change of name. Subsequent to this MEIF Renewable Energy (Holdings) Limited and MEIF LG Holding Limited changed their names to Melton Renewable Energy (Holdings) Limited and Melton LG Holding Limited, respectively. We refer to these entities as Melton Renewable Energy (Holdings) Limited and Melton LG Holding Limited in this report, in reference to these entities both before and after the change of name.

In order to align the financial year ends of MRE UK and its subsidiaries with that of its new parent company, Eucalyptus Energy Limited, MRE UK changed its financial year end to June 30. This will give rise to a 15 month accounting period ending June 30, 2016. Quarterly reporting will continue with suitable and appropriate comparatives.

### July 2015 Budget – Climate Change Levy Announcement

In the Budget of July 8, 2015 the Government announced its intention to discontinue the Climate Change Levy ("CCL") exemption for renewable generators and this was implemented with effect from August 1, 2015 and Levy Exemption Certificates have not been issued for renewable generation since this date. This change was unexpected and extremely disappointing.

In the quarter ended December 31, 2015 discontinuing the CCL exemption scheme has resulted in a reduction in MRE UK's turnover and EBITDA of £1.3m and £1.2m respectively. In the nine months ended December 31, 2015 discontinuing the CCL exemption scheme has resulted in a reduction in MRE UK's turnover and EBITDA of £2.1m and £2.0m respectively.

### Recycle ROC

On October 22, 2015 Ofgem announced the Recycle ROC value for 2014/15 at £0.24 per ROC, with an additional £0.11 per ROC arising from the ROC buy-out late payment fund. This is below our original expectations, largely as a result of renewable generation and associated ROCs issued (and subsequently presented by electricity suppliers) being very close to the target set by the Department of Energy & Climate Change ("DECC"), including its 10% headroom target.

### Electricity prices

The following is not a prediction or a projection of wholesale electricity prices for any future period or a projection or prediction of the electricity prices we will receive pursuant to our Power Purchase Agreement ("PPA") for any future periods. Any fluctuations or decreases in wholesale electricity prices, whether temporary or permanent, may adversely affect our business, financial condition and results of operations.

The wholesale electricity prices we receive pursuant to our BG Biomass PPA and BG Landfill Gas PPA are fixed in advance. Pursuant to our BG Biomass PPA and our BG Landfill Gas PPA, the electricity prices received are fixed every twelve months and every six months in advance, respectively, based on the average wholesale market electricity future prices over an agreed three-month and two-month, respectively, calculation period.

The electricity price we receive pursuant to our BG Biomass PPA was re-set in the summer of 2015 for the twelve months commencing October 1, 2015. The agreed net price per MWh we receive for electricity generation from our Biomass Business for the twelve months ending September 30, 2016 pursuant to the BG Biomass PPA is £39.89, a decrease of £5.06 from the £44.95 per MWh received for the twelve months ended September 30, 2015.

The electricity price we receive under our BG Landfill Gas PPA was re-set for the six months commencing October 1, 2015, based upon the wholesale price for winter 2015 during the two month calculation period to September 15, 2015. The agreed net price per MWh received for electricity generation from our Landfill Gas Business for the six months ending March 31, 2016 pursuant to the BG Landfill Gas PPA is £42.17, a decrease of £5.23 from the £47.40 per MWh received for the six months ended March 31, 2015.

**Yorkshire Windpower Limited – Repowering**

Yorkshire Windpower Limited ("YWP") is a 50% owned subsidiary of Energy Power Resources Limited. YWP owns and operates a wind-farm at Royd Moor and is in the process of repowering its previous wind-farm at Ovenden Moor.

The repower project at Ovenden Moor commenced on July 31, 2015 with the decommissioning of the existing wind turbines. The repower project is currently on schedule for the nine new 2MW turbines to be commissioned late summer 2016. The associated capital costs remain in line with original expectations at around £24 million, of which Energy Power Resources Limited will fund 50%.

As previously reported, we are confident that the repowered Ovenden Moor site meets all of the criteria required to benefit from the grace period for onshore wind projects as currently drafted and will be supported under the RO regime at the level of 0.9 ROCs per MWh.

**Fuel Contracts**

There have been no material fuel contracts signed or changes to the portfolio of fuel supply agreements in the period.

## PRESENTATION OF FINANCIAL AND OTHER DATA

### Financial information and operational data

On January 29, 2015 MRE UK issued £190 million senior secured notes (the "Notes") with an interest rate of 6.75% per annum and a repayment date of February 1, 2020. Proceeds of the Notes were used to repay existing third party debt and to make a distribution to our shareholder by way of shareholder loan repayments.

This quarterly report includes unaudited combined historical financial statements for the Issuer and its subsidiaries as of and for the quarters and nine months ended December 31, 2015 together with comparative combined results for the quarters and nine months ended December 31, 2014 (the "Combined Financial Information").

The Issuer is a public limited company incorporated on August 29, 2014. On September 26, 2014 MRE UK acquired one hundred percent of the share capital of both Melton Renewable Energy (Holdings) Limited and Melton LG Holding Limited (the "Acquisition"). The Combined Financial Information presents the combined trading results and cash flows of the continuing operations of Melton LG Holding Limited and its consolidated subsidiaries and Melton Renewable Energy (Holdings) Limited and its consolidated subsidiaries for the quarters and nine months ended December 31, 2014 and 2015. This presentation of financial information is consistent with the financial information that was included in our Offering Memorandum. The Combined Financial Information represents an aggregation of the amounts recognised in the financial records of entities within the MRE UK group to show the historical trading performance.

The accounting and other principles applied in preparing the Combined Financial Information are summarized as follows:

- The Combined Financial Information has been prepared on a historical cost basis;
- The Combined Financial Information of the entities comprising the MRE UK group has been prepared for the same reporting periods using consistent accounting policies; and
- Transactions and balances between entities within the MRE UK group have been eliminated within the Combined Financial Information.

Further, cost of sales within the Combined Financial Information includes biomass fuel, fossil fuel, sorbent, landfill gas royalties and engine maintenance expenses and is consistent with the presentation of information in the profit and loss account included in our Offering Memorandum and based upon the historic statutory accounts or the Biomass Business and Landfill Gas Business. In the condensed consolidated unaudited financial statements of MRE UK the directors have adopted a broader classification of costs of sales to include all plant maintenance, depreciation and operational staff costs in addition to those costs described above. Profit on ordinary activities and EBITDA is not affected by the reclassification of costs from administrative expenses to cost of sales. The Combined Financial Information has been prepared in accordance with UK GAAP in all other respects.

In addition to the Combined Financial Information, we have presented unaudited condensed consolidated financial statements of the Issuer as at December 31, 2015, including trading results for the nine months ended December 31, 2015. Comparative balance sheet and trading results are not provided.

We have presented certain information in this quarterly report which are Non-GAAP measures. As used in this quarterly report, this information includes "EBITDA", which represents operating profit before amortization, impairment and depreciation and "EBITDA (excluding ROC Recycle payments)" together, the "Non-GAAP Measures". We believe that these Non-GAAP Measures are meaningful for investors because they provide an indication of our operating performance, profitability and ability to service debt, and are commonly reported and widely used by analysts, investors and others interested in the renewable energy industry. These Non-GAAP Measures exclude amortization, impairment and depreciation from operating profit, thereby eliminating the impact of long-term capital expenditure. EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA as reported by us to EBITDA of other companies. Whilst we are presenting these measures to enhance the understanding of operating performance, EBITDA and EBITDA (before ROC Recycle payments) should not be considered an alternative to operating profit as a measure of operating performance, or as an alternative to cash flows from operating activities as a measure of our liquidity. We view EBITDA and EBITDA (before ROC Recycle payments) as additional to, rather than a replacement for, these other performance indicators.

The Non-GAAP Measures presented in this quarterly report are unaudited and have not been prepared in accordance with IFRS or UK GAAP or any other accounting standards. In addition, the presentation of these measures is not intended to and does not comply with the reporting requirements of the SEC; compliance with its requirements would require us to make changes to the presentation of this information. A reconciliation of EBITDA and EBITDA (before ROC Recycle payments) to profit for the relevant financial period is included within the "Combined Financial Information and Other Data".

You should not consider EBITDA or any other Non-GAAP Measures presented herein as alternatives to measures of financial performance determined in accordance with generally accepted accounting principles (such as profit for the period), as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for the limitations of Non-GAAP Measures by relying primarily on our UK GAAP results and using these Non-GAAP Measures only to supplement evaluation of our performance. You are encouraged to evaluate each of the adjustments reflected in our presentation of the Non-GAAP Measures and whether you consider each to be appropriate.

## COMBINED FINANCIAL INFORMATION AND OTHER DATA

The following represents summary Combined Financial Information and other data for MRE UK and its subsidiaries as of and for (i) the quarters ended December 31, 2014 and 2015; and (ii) the nine months ended December 31, 2014 and 2015.

On September 26, 2014 MRE UK acquired one hundred percent of the share capital of both Melton Renewable Energy (Holdings) Limited and Melton LG Holding Limited. Both Melton Renewable Energy (Holdings) Limited and Melton LG Holding Limited and their subsidiaries are included within the Combined Financial Information of their parent company MRE UK.

The Combined Financial Information presents the combined results of the continuing operations of Melton Renewable Energy (Holdings) Limited and its consolidated subsidiaries and Melton LG Holding Limited and its consolidated subsidiaries for the quarters and nine months ended December 31, 2014 and 2015.

The Combined Financial Information represents an aggregation of the amounts recognized in the financial records of entities within the MRE UK group to show the historical trading performance and therefore excludes certain accounting entries arising upon consolidation of the MRE UK group. These are included within the condensed consolidated financial information (unaudited) of MRE UK also presented within this report.

**Executive Summary**

MRE UK's underlying operational performance remained strong in the quarter ended December 31, 2015 with total generation in line with the corresponding quarter of the previous year. Biomass Business output increased by 8.5GWh (4%) compared with the corresponding quarter of the previous year, offsetting the decline in output from the Landfill Gas portfolio which reflects the age and operating profile of the landfill sites from which it operates. In the nine months to December 31, 2015 total output from the MRE UK portfolio increased by 8GWh (1%) compared with the nine months ended December 31, 2014, with output from the Biomass Business increasing by 30GWh (5%) due to improvements in both availability and load factor across the five biomass power stations.

Despite strong operational performance, the combined financial results for the quarter ended December 31, 2015 have been adversely impacted by three external factors:

- Electricity prices received pursuant to the Biomass and Landfill Gas PPA's were re-set with effect from October 1, 2015 and the updated price reflected the significant fall in the wholesale market price of electricity over the last twelve months. In both the Biomass and Landfill Gas businesses, the prices receivable from October 1, 2015 were approximately £5 per MWh (11%) lower than those receivable from October 1, 2014. In total, the impact of the lower electricity prices, based on generation in the quarter ended December 31, 2015, was a £1.5m reduction in turnover;

- The removal of the CCL exemption for renewable generation from 1 August 2015 adversely impacted turnover in the quarter ended 31 December 2015 by £1.3m; and

- Recycle ROC revenue received in the quarter ended 31 December 2015, in respect of the year ended March 31, 2015, was £0.3m lower than that received in the corresponding quarter of the previous year.

The combined financial results for the quarter ended December 31, 2015 include one-off costs totalling £0.7m within administrative expenses relating to (i) bonuses payable following the sale of MRE UK to Eucalyptus Energy Limited; and (ii) restructuring costs associated with the closure of Energy Power Resources Limited's small administration office in Paris.

*Combined Profit and Loss Accounts*

| (in thousands of £) | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| **Group turnover** | **32,150** | **28,700** | **93,520** | **88,860** |
| Cost of sales | (11,962) | (11,792) | (35,859) | (35,457) |
| **Gross profit** | **20,188** | **16,908** | **57,661** | **53,403** |
| Administrative expenses | (11,731) | (12,669) | (38,267) | (39,188) |
| **Group operating profit** | **8,457** | **4,239** | **19,394** | **14,215** |
| Share of operating profit in joint venture | 241 | 85 | 274 | 256 |
| **Total operating profit: group and share of joint venture** | **8,698** | **4,324** | **19,668** | **14,471** |
| Interest receivable and similar income | 5 | 11 | 16 | 57 |
| Interest payable and similar charges | (3,499) | (6,079) | (10,726) | (19,155) |
| **Profit/(loss) on ordinary activities before taxation** | **5,204** | **(1,744)** | **8,958** | **(4,627)** |
| Tax on profit/(loss) on ordinary activities | (1,346) | 491 | (2,264) | 1,391 |
| **Profit/(loss) for the period** | **3,858** | **(1,253)** | **6,694** | **(3,236)** |

*Combined Net Sales by Business*

| (in thousands of £) | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| Biomass Business | 23,017 | 21,214 | 67,471 | 66,429 |
| Landfill Gas Business | 9,133 | 7,486 | 26,049 | 22,431 |
| **Total** | **32,150** | **28,700** | **93,520** | **88,860** |

*Consolidated Balance Sheets*

| (in thousands of £) | Audited As at March 31, 2015 | Unaudited As at December 31, 2015 |
|---|---|---|
| Cash at bank and in hand | 26,367 | 20,497 |
| Other current assets | 42,550 | 47,076 |
| Total non-current assets | 298,695 | 279,543 |
| **Total assets** | **367,612** | **347,116** |
| Total non-current liabilities | 309,561 | 300,880 |
| Total current liabilities | 18,023 | 18,806 |
| Total liabilities | 327,584 | 319,686 |
| Total invested capital | 40,028 | 27,430 |
| **Total invested capital and liabilities** | **367,612** | **347,116** |

Following the issue of the Notes on January 29, 2015 and subsequent repayment of the third party bank debt, we have presented the unaudited consolidated balance sheet of MRE UK as at December 31, 2015, together with the audited consolidated balance sheet as at March 31, 2015.

***Combined Statements of Cash Flow***

| (in thousands of £) | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| Net cash inflow from operating activities………. | 19,702 | 14,272 | 36,185 | 28,683 |
| Returns on investment and servicing of finance | (481) | (49) | (7,667) | (7,007) |
| Taxation ...................................................... ... | (431) | - | (1,634) | 9 |
| Capital expenditure and financial investment | (575) | (426) | (2,975) | (2,320) |
| Loans to associated undertakings………………… | - | (4,215) | - | (6,235) |
| Equity dividends paid…………………………….…... | - | - | (11,800) | - |
| Net cash outflow from financing ............... …. | - | - | (5,438) | (19,000) |
| **Increase/(decrease) in cash.........................** | **18,215** | **9,582** | **6,671** | **(5,870)** |

***Staff costs***

| (in thousands of £) | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| Wages and salaries......................................... | 2,476 | 3,096 | 7,648 | 8,222 |
| Social security costs……………………………….… | 277 | 287 | 855 | 866 |
| Other pension costs…………………………………... | 89 | 94 | 257 | 279 |
| | **2,842** | **3,477** | **8,760** | **9,367** |

***Employee information***

The average number of persons employed by the group during the period was:

| By activity | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| Production……….............................................. | 199 | 200 | 200 | 198 |
| Administration……..………………………………… | 57 | 62 | 57 | 64 |
| | **256** | **262** | **257** | **262** |

**Interest payable and similar charges**

| (in thousands of £) | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| Bank debt interest and charges........................ | 1,480 | - | 4,634 | - |
| Interest payable to shareholder company........ | 1,992 | 2,875 | 6,013 | 8,377 |
| Bond interest payable and charges................... | - | 2,885 | - | 9,736 |
| Amortization of debt issue costs......................... | 27 | 259 | 79 | 826 |
| Other interest and charges................................. | - | 60 | - | 216 |
| | **3,499** | **6,079** | **10,726** | **19,155** |

**Other Financial Data**

| (in thousands of £) | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| EBITDA (1)............................................................ | 12,774 | 8,377 | 31,859 | 26,577 |
| EBITDA (excluding ROC Recycle payments) (2) | 12,036 | 8,010 | 31,121 | 26,210 |
| Net third-party debt (3)....................................... | 77,613 | 145,662 | 77,613 | 145,662 |
| Capital expenditures (4)..................................... | 575 | 426 | 2,975 | 2,320 |

(1) Our EBITDA represents profit for the period *plus* tax on profit on ordinary activities, interest payable and similar charges, loss on disposal of tangible fixed assets depreciation and amortization and write-off of certain assets under construction *less* interest receivable, profit on disposal of tangible fixed assets and similar income. EBITDA is not a measurement of performance under UK GAAP and you should not consider EBITDA as an alternative to (a) operating profit or profit for the period (as determined in accordance with UK GAAP) as a measure of our operating performance, (b) cash flows from operating investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under UK GAAP.

We believe that EBITDA is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties in evaluating our business. EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA as reported by us to EBITDA of other companies. EBITDA as presented here differs from the definition of "Consolidated EBITDA" contained in the Indenture. See "Presentation of Financial and Other Data" for further information regarding EBITDA, including its limitations as an analytical tool.

The following table reconciles profit/(loss) for the period from continuing operations to EBITDA for the periods indicated:

| (in thousands of £) | Quarter ended December 31 2014 | Quarter ended December 31 2015 | Nine months ended December 31 2014 | Nine months ended December 31 2015 |
|---|---|---|---|---|
| Profit/(loss) for the financial period..................... | 3,858 | (1,253) | 6,694 | (3,236) |
| Tax on profit/(loss) on ordinary activities.............. | 1,346 | (491) | 2,264 | (1,391) |
| Interest payable and similar charges...................... | 3,499 | 6,079 | 10,726 | 19,155 |
| Interest receivable and similar income.................. | (5) | (11) | (16) | (57) |
| Depreciation and amortization............................... | 4,076 | 4,054 | 12,246 | 12,107 |
| Profit on disposal of tangible fixed assets............ | - | (1) | (55) | (1) |
| **EBITDA.....................................................................** | **12,774** | **8,377** | **31,859** | **26,577** |

(2) EBITDA as presented in each period includes ROC Recycle payments. EBITDA (excluding ROC Recycle payments) represents our EBITDA less ROC Recycle payments received. Energy suppliers who fail to fulfill their renewables obligations under the RO regime must make a cash buy-out payment, which is then recycled and returned to suppliers by Ofgem in proportion to the ROCs such supplier presented. Pursuant to our PPAs, British Gas is required to pass through to us a certain portion of the ROC Recycle payments it received from Ofgem. We account for ROC Recycle payments on a cash basis and generally receive these payments in October for the previous compliance year to March 31. As a result, the Group turnover reported in any given year reflects the amount of buy-out payments received in that year but in respect of output generated in the prior financial year.

As ROC Recycle payments fluctuate from period to period as a function of the annual quantity of renewable energy produced in the United Kingdom, and thus are not within the control of our business, management does not consider ROC Recycle payments to be indicative of our underlying performance nor to aid in the understanding of our EBITDA for a given period. The following table provides our EBITDA excluding ROC Recycle payments received for the periods indicated:

| | Quarter ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2014** | **2015** | **2014** | **2015** |
| **(in thousands of £)** | | | | |
| EBITDA......................................................................... | 12,774 | 8,377 | 31,859 | 26,577 |
| ROC Recycle payments…………………………………………. | (738) | (367) | (738) | (367) |
| **EBITDA (excluding ROC Recycle payments)……………** | **12,036** | **8,010** | **31,121** | **26,210** |

We believe that EBITDA (excluding ROC Recycle payments) is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties in evaluating our business. EBITDA (excluding ROC Recycle payments) and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA (excluding ROC Recycle payments) as reported by us to EBITDA (excluding ROC Recycle payments) of other companies. EBITDA (excluding ROC Recycle payments) as presented here differs from the definition of “Consolidated EBITDA” contained in the Indenture. See “Presentation of Financial and Other Data” for further information regarding EBITDA (excluding ROC Recycle payments), including its limitations as an analytical tool.

(3) Net third-party debt consists of our senior secured debt net of unamortised debt issue costs and cash at bank and in hand.

(4) Capital expenditures represent additions to fixed assets.

## Other Performance Data

| | Quarter ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2014** | **2015** | **2014** | **2015** |
| **Output GWh ...............................................** | **295.0** | **295.3** | **838.2** | **846.0** |
| Biomass......................................................... | 199.4 | 207.9 | 555.3 | 585.6 |
| Landfill………………………………………………………… | 95.6 | 87.4 | 282.9 | 260.4 |
| **Availability (%) (1)……………………………………….** | **92.0%** | **92.4%** | **90.0%** | **91.5%** |
| Biomass……………………………………………………….. | 89.8% | 89.8% | 85.0% | 87.8% |
| Landfill (2)…………………………………………………… | 94.1% | 94.9% | 94.9% | 95.2% |

(1) Availability is presented as the unweighted average availability in our Biomass Business and Landfill Gas Business.

(2) Within the Landfill Gas Business, spare engines are not included in the calculation of available hours.

## OPERATING AND FINANCIAL REVIEW

In this Operating and Financial Review and unless otherwise indicated, we generally use "we", "our" and other similar terms to refer to MRE UK and its subsidiaries.

The following is a discussion of our results of operations in the periods set out below. You should read this discussion together with the sections entitled "Combined Financial Information and Other Data" and the combined financial statements and the related Notes and information included within this quarterly report. The combined financial information in this discussion of our results of operations and financial condition as of and for the quarters and nine months ended December 31, 2015 and December 31, 2014 have been derived from unaudited combined financial information included elsewhere in this quarterly report.

**Business Overview**

We are an independent generator of renewable energy in the United Kingdom and as of December 31, 2015 our portfolio of electricity generating assets had a total net installed capacity of 174 MW. We have a business which is diversified across multiple technologies, sites, network connection points and renewable fuels.

Through our Biomass Business, we own and operate the largest independent biomass-only fueled power station portfolio in the United Kingdom, consisting of five biomass power stations with a total net installed capacity of 111 MW. Through our Landfill Gas Business, we own and operate methane-powered electricity generation assets at 25 landfill sites across Great Britain, representing 63 MW of net installed capacity. For the quarter ended December 31, 2015, the portfolio of assets generated 295.3GWh with Group turnover of £28.7 million and EBITDA of £8.4 million.

Our five biomass power stations are located at Thetford, Ely, Glanford, Eye and Westfield and generate electricity from the combustion of poultry litter, straw, MBM, horse bedding and forest woodchips. We sell all of the electrical output of, and the various regulatory incentives attributable to, our Biomass Business pursuant to a long-term power purchase agreement. Since the commissioning of our first biomass power station in Eye, Suffolk in 1992, we have built strong relationships with fuel suppliers and have developed significant experience in the procurement and logistics associated with our primary input fuels. We source the majority of our fuel supply under medium and long-term RPI-linked contracts.

The Biomass Business also sells the residue combustion ashes from its biomass power stations as fertilizer. This element of our business is seasonal with the majority of sales arising during March, August and September each year. In the quarter ended December 31, 2015 sales were 3,965 tonnes compared to 2,916 tonnes in the quarter ended December 31, 2014. Additionally, our Biomass Business owns a 50% equity stake in two onshore wind farms in the United Kingdom, with a current installed capacity of 6MW, with one site being repowered up to 18MW. For the quarter ended December 31, 2015, MRE UK's share of the operating profit of its wind farm joint venture was £0.1 million.

During the three months ended December 31, 2015 Westfield power station undertook its annual maintenance outage. Planned annual maintenance outages are generally two weeks in length and are vital in maintaining key components and ensuring long term resilience and high availability. This is at the expense of reduced availability, output and revenue and additional maintenance costs when compared to other quarters.

For the quarter ended December 31, 2015, our Biomass Business generated 207.9GWh of electricity with turnover of £21.2 million and EBITDA of £5.5 million.

Our Landfill Gas Business generates electricity using naturally occurring methane produced by the anaerobic decomposition of waste deposited in landfill sites to power gas engines. As of December 31, 2015, we operated from 25 landfill sites across Great Britain, with a total of 68 gas engines and a net installed capacity of 63 MW. We enter into specific, long-term gas agreements with each landfill site owner or operator which allow us to use the gas produced at the sites in return for payment of a royalty, linked to our turnover for the relevant site. We sell almost all of the electrical output of, and various regulatory incentives attributable to, our Landfill Gas Business pursuant to a long-term power purchase agreement. For the quarter ended December 31, 2015, the Landfill Gas Business generated 87.4GWh with turnover of £7.5 million and EBITDA of £3.1 million.

**Key Factors Influencing Our Results of Operations**

Our results of operations during the periods under consideration have primarily been affected by a combination of regulatory, economic and group-specific operational factors. The regulatory framework determines the parameters within which we operate. Economic conditions influence electricity supply and demand as well as electricity price and the cost of biomass fuel, labour, services and commodities. These affect both the revenues and costs associated with our operations. Group-specific factors affecting our operating results include, but are not limited to, portfolio output, plant reliability and efficiency as well as availability of biomass fuel contracts and gas agreements. The most important of these factors are discussed below.

***Power Contracting***

We sell the entire electrical output and all other revenue elements of Thetford, Eye, Glanford and Ely to British Gas pursuant to a long term power purchase agreement which runs to March 31, 2020 ("the BG Biomass PPA"). In August 2015 the Westfield power purchase agreement dated August 2011 with Smartest Energy ("the Smartest PPA") expired, following which the output of Westfield was sold pursuant to the BG Biomass PPA. We sell the electrical output from all 25 of our landfill sites to British Gas pursuant to a long term power purchase agreement which runs to February 28, 2022 (the "BG Landfill Gas PPA"). In addition, we currently sell an element of separately-metered electricity generated at two landfill sites (Auchencarroch and Jameson Road) pursuant to legacy NFFO/SRO-contracts, under which we receive an all-inclusive RPI-indexed fixed price for every MWh of electricity generated. The NFFO/SRO-contracts will expire in 2017 and 2018, respectively, after which this element of electricity output from the two landfill sites will also be sold under the BG Landfill Gas PPA.

Our power purchase agreements cover all revenue elements and comprise (i) a payment for generated electricity which is based on the wholesale market electricity price and is fixed every six months in advance under our BG Landfill Gas PPA and every twelve months in advance under our BG Biomass PPA; (ii) a fixed element linked to the UK Government's RO regime, which includes a price for each of the Renewable Obligation Certificates ("ROCs") sold by us to British Gas (the "ROC buyout price"); (iii) variable annual ROC Recycle payments from the energy supplier to us; and (iv) embedded benefits, being triad income and GDUoS credits. The prices we receive for each of our ROCs are fixed under our PPAs as a percentage of the ROC buyout price. The ROC buyout price is RPI-linked and announced annually in advance for the following year by Ofgem. As a result, the revenue we receive under our PPAs depends on developments in the wholesale electricity market as well as the UK renewable energy regulatory regime.

Historically, our power purchase agreements included a fixed element linked to the UK government's taxation of business consumers of electricity by way of the climate change levy ("CCL"), being a price for the levy exemption certificates ("LECs") sold by us to British Gas, this tracked the CCL ("LEC Value"). Within the Budget of July 8, 2015 the Government announced the discontinuation of the CCL exemption for renewable generators from August 1, 2015, specifically Levy Exemption Certificates are no longer being issued for renewable generation from this date. The revenue and EBITDA impact on the MRE UK group in the quarter to December 31, 2015 was £1.3 million and £1.2 million respectively. The revenue and EBITDA impact in the nine months to December 31, 2015 was £2.1 million and £2.0 million respectively.

***Wholesale Energy Prices***

The market for wholesale electricity is affected by a number of factors, including the price of input fuel commodities, supply dynamics such as generator availability, and demand for electricity. Accordingly the wholesale electricity price may be volatile. Wholesale electricity prices have fallen significantly over the last 18 months, linked to lower gas and oil prices.

As we sell the vast majority of our generated electricity pursuant to our PPAs, which include a payment for electricity based on the wholesale market electricity price, our Group turnover is affected by changes in the wholesale market electricity price. The Biomass Business receives an electricity price that is fixed every twelve months in advance at the market rate less a customary margin, with each twelve month period lasting from October 1 to September 30 of the following year. The electricity price the Landfill Gas Business receives under the terms of the BG Landfill Gas PPA is fixed every six months in advance at the market rate less a customary margin, with the six-month periods lasting from 1 October to 31 March and from 1 April to 30 September.

The following table provides an overview of the average gross wholesale market electricity price within the prescribed calculation periods under the PPAs for the periods indicated, as determined pursuant to the methodologies of our PPA.

| **Biomass Twelve months ended/ending September 30, (*In £ per MWh*)** | | | **Landfill Gas Six months ended/ending March 31, (*In £ per MWh*)** | | | **Landfill Gas Six months ended September 30, (*In £ per MWh*)** | | |
|---|---|---|---|---|---|---|---|---|
| **2014** | **2015** | **2016** | **2014** | **2015** | **2016** | **2013** | **2014** | **2015** |
| 51.74 | 48.86 | 43.36 | 54.06 | 49.90 | 44.39 | 49.33 | 46.75 | 42.77 |

***Renewables Obligation (RO) Regime and Non-Fossil Fuel Obligation (NFFO) Regime***

Group turnover received in respect of our electricity generating assets is predominantly supported by the RO regime and, to a much lesser extent, the NFFO/SRO regime. The NFFO/SRO regime, which applies to an element of output from two of our landfill gas sites, was originally established in 1989 and granted energy generators an RPI-indexed, fixed price for electricity output pursuant generally to a 15 year NFFO or SRO contract. The NFFO/SRO regime was replaced by the RO regime.

The RO regime was established in 2002 and requires energy suppliers to source a growing percentage of electricity from eligible renewable generation capacity. Renewable energy generators, such as us, receive a given number of ROCs from Ofgem for each MWh of energy generated from renewable sources. The number of ROCs awarded per MWh depends on the renewable energy technology used and is known as a banding factor. We receive 1.5 ROCs per MWh of energy produced in our Biomass Business and 1.0 ROCs per MWh for the vast majority of energy produced in our Landfill Gas Business. While the banding factor for different technologies has varied over time, the banding factors currently applicable to our technologies have been grandfathered and will remain in place until 2027. We transfer and sell these ROCs to energy suppliers who in turn use them to satisfy their renewable obligation.

Energy suppliers who fail to fulfill their annual renewables obligations under the RO regime must make a cash buy-out payment, which is then recycled and returned to suppliers by the regulator, Ofgem, in proportion to the number of ROCs the suppliers surrendered ("ROC Recycle"). The ROC Recycle payments are generally then passed back to the renewable generators, such as ourselves, under the terms of the relevant power purchase agreements.

The level of the annual ROC Recycle payment is dependent upon the level of renewable generation and ROCs issued and subsequently submitted by electricity suppliers for the compliance year, compared to the target set by DECC, which is based upon its expectations of such generation, plus 10% headroom. DECC resets its forecast and target on an annual basis for the compliance year ahead.

We account for our ROC Recycle income annually each October when it is announced by Ofgem and its value is certain.

Historically, the all-in sale price we obtained under the RO regime has been significantly higher than the fixed price received by electricity generating assets supported under the NFFO/SRO regime. The number of our sites operating under the NFFO/SRO regime has significantly diminished since the introduction of the RO regime.

For the nine months ended December 31, 2015, the entire output of our Biomass Business's power stations and all 25 of our landfill sites was supported by the RO regime. Some of the electricity generated at two of our landfill sites is separately metered and sold pursuant to NFFO and SRO contracts. Our remaining NFFO/SRO contracts will expire in 2017 and 2018, after which all our electricity will be sold pursuant to our PPAs. After the last NFFO/SRO contract terminates, only the RO regime will be relevant for our business. For the nine months ended December 31, 2015, we generated Group turnover in respect of electricity sales of £83.3 million under the RO regime and £0.4 million under the NFFO/SRO regime.

***Pricing and Availability of Raw Materials***

The results of operations of our Biomass Business are affected by the price and the availability of biomass fuels, predominantly poultry litter, straw and MBM. The price of biomass fuel for our power stations is affected by a number of factors, including competition for existing fuels from other biomass power stations or alternative users, adverse weather, supply chain issues or changes to the regulatory regime governing the availability or price of these fuels. To mitigate the effect of price volatility on our business, where possible, we source the majority of our biomass fuels pursuant to long-term contracts with a variety of suppliers.

We generally source poultry litter under long-term contracts, with the price fixed and linked to the RPI over the duration of the contract period. For the nine months ended December 31, 2015, we sourced poultry litter pursuant to 18 supply contracts.

Historically, we have sourced approximately 75% of our straw requirements pursuant to supply contracts, which generally have a duration of four years, with annual price increases linked to the RPI. With effect from summer 2015, we have procured all our straw under fixed-term and RPI-linked supply contracts.

We currently source MBM under contracts with five suppliers with the contracts lasting for between two and three years.

Our business can be exposed to unexpected increases in haulage costs. Haulage costs can either be included in the contracted biomass fuel price or can be contracted for separately. Where haulage costs are included in the biomass fuel price, diesel price increases are borne by the fuel supplier, whereas we bear the costs of diesel price increases where haulage is separately contracted for. We estimate that, for the nine months ended December 31, 2015, approximately 25% of the fuel we sourced included haulage costs in the fuel price. Historically, when diesel prices have increased, wholesale market electricity prices have usually increased as well, mitigating the increase in separately contracted haulage costs; however, there is no contractual link.

Where practical, we aim to minimize haulage costs by sourcing our fuel from suppliers located in close proximity to our power stations in order to reduce transportation costs.

To ensure the short-term availability of fuels, each of our power stations has on-site fuel storage, ranging from approximately three days' fuel requirements at Ely to approximately one month's fuel requirements at Glanford. Additionally, in order to aid logistics, support day-to-day operations and allow for any short term supply issues, each station except Glanford has an element of adjacent off-site storage.

*Landfill Sites Portfolio Output*

Our Landfill Gas Business generates electricity using landfill gas (methane) to fuel gas engines installed across 25 sites. Landfill gas is naturally occurring and is created through the anaerobic decomposition of organic matter over time. The output of energy at our landfill sites depends on the availability and collection of landfill gas, which in turn is affected by a number of factors which are not constant, including the amount and type of waste deposited in the landfill, the operational landfilling practices of the landfill operator, the rate of anaerobic decomposition, the efficiency of the landfill gas collection process and the weather. Additionally, the volume of gas production depends on whether a landfill site is capped (sealed) or uncapped and whether the sites are open or closed to new waste deposits. As a result, the landfill gas available and collected at individual sites and associated electrical output fluctuates although such changes are spread across 25 sites.

Output decreased by 22.5GWh, or 7.9%, from 282.9GWh for the nine months ended December 31, 2014 to 260.4GWh for the nine months ended December 31, 2015. A reduction in output can be expected due to the fact that 15 of the 25 sites from which the Landfill Gas Business operates are closed to new waste deposits and gas volumes from these sites will gradually decline over time. Output in the nine months ended December 31, 2015 has been further impacted by restricted access to gas at the largest site in the portfolio due to capping and site re-profiling works required following its closure to new waste

We have secured access to our 25 landfill sites pursuant to long-term gas supply agreements with the relevant landfill site owner or operator. Pursuant to the gas supply agreements, we have the right to use the gas produced at the site in return for payment of a royalty fee to the landfill owner or operator. Royalty mechanisms vary from site to site, but are based on a percentage of the revenue received in respect of a site.

As of December 31, 2015, our gas supply arrangements had a remaining average term of 6 years and 5 months, and of the 25 sites from which we extract landfill gas under gas supply arrangements, the arrangements for 9 sites (representing approximately 12% of output in the nine months to December 31, 2015) will expire by March 31, 2020 and will need to be extended.

*Availability of Assets*

To maintain electrical output, our business depends on the availability of our power generating assets. Availability in our Biomass Business is affected by planned and unplanned outages of our power stations due to, for example, maintenance, inspections or other safety related downtime. Maintenance and plant failures result in a power station running at less than full capacity or being off-line and not generating power at all. Planned outages at our power stations occur with some regularity to allow for scheduled boiler cleaning and maintenance, and we anticipate these outages in our operating plans. Generally, our planned outages include a main annual outage of around 14 days and interim outages of four to five days duration which occur every six to eight weeks at Thetford, Glanford, Eye and Westfield. Ely does not generally require interim cleaning and maintenance outages between its annual summer outages. In addition to planned outages, our Biomass Business may be affected by unplanned outages which can occur as a result of plant failure.

We believe our Biomass Business generating assets to be well invested. We mitigate the risk of unplanned outages by undertaking ongoing plant condition monitoring (e.g. oil sampling, vibration and heat analysis, etc.) and preventative maintenance. We support our maintenance regime through our trained team of operational and maintenance staff and our operations benefit from long term maintenance contracts for specialist equipment such as turbines and generators. We also maintain a stock of strategic spare parts. In addition, we undertake annual capital improvements to remediate or remove recurring maintenance issues in a timely and cost-effective manner.

For the nine months ended December 31, 2015, Thetford, Eye, Ely, Glanford and Westfield had availabilities (including planned and unplanned outages) ranging between 83% and 91% with an average of 88%. In addition, we measure the performance of our Biomass power stations by load factor, representing the actual output generated by our power stations in a given period as a percentage of the theoretical maximum output of that plant. The theoretical maximum output assumes that the plant runs at its net capacity continuously over such period.

Two elements generally affect output and load factor: (i) scheduled or unscheduled outages of the plant, during which a power station does not generate electricity (for example, to undertake maintenance activity); or (ii) electricity generation at below maximum net capacity due to, for example, operational issues or combustion conditions. In general, we consider both elements in our operational plans, and in particular planned outages to enable scheduled maintenance to take place.

Within our Landfill Gas Business, we focus on engine availability, as planned and unplanned engine outages (i.e. an engine being unable to operate) can affect our operations. As we do in our Biomass Business, we mitigate the risk of unplanned engine outages by undertaking plant condition monitoring and preventative maintenance. We aim to follow our engine manufacturers' best practice recommendations and we carry out engine overhauls approximately every 20,000 operating hours. We supplement our maintenance strategy with a stock of strategic spare parts and a trained team of operational staff. For the nine months ended December 31, 2015, our gas engine fleet had availability of 95.2%, a slight improvement from the 94.9% achieved in the prior period.

To optimize the deployment of our gas engines across our landfill sites and to ensure operational efficiency, we replace larger engines installed at landfill sites with declining landfill gas output with smaller engines, from our portfolio of engines, thus reducing operating costs as well as personnel and maintenance costs at those sites. Similarly, we relocate larger engines and spare or under-utilized engines to sites with higher landfill gas output to create spare engine capacity at those sites which we can utilize whenever another engine has a planned or unplanned outage. For example, we have strategically created spare capacity at a number of landfill sites with typically high output to reduce the effect of engine downtime at those sites on our business.

YWP's Ovenden Moor site was de-energized on July 21, 2015 ahead of its decommissioning and the start of the repower project (see below). Up to this point, turbine availability at this site was 73.0%. During the nine months ended December 31, 2015, wind turbine availability at Royd Moor was 82.3%.

Output from YWP in the nine months ended December 31, 2015 was 11,126 MWh, a reduction of 2,615 MWh compared with the nine months ended December 31, 2014, reflecting the de-energization of Ovenden Moor from July 21, 2015. As is typical of wind assets, YWP's output is seasonal with generally approximately one third of its output arising in the six months to September 30 and the balance in the second six months to March 31.

We believe that without incremental capital and maintenance expenditure, availability of YWP's original wind farm at Royd Moor will remain in line with the current levels, or slightly decrease through to the end of its operating life which is anticipated to be during 2018.

Energy Power Resources Limited is funding the YWP repower project at Ovenden Moor by way of a shareholder loan in a maximum amount of £12 million, representing 50% of the required capital expenditure. The balance of capital expenditure will be funded by an equivalent shareholder loan from our joint venture partner, E.ON Climate and Renewables Limited. The repower project will replace the original 1993 wind turbines and increase the installed capacity of the site from around 9MW to 18MW. Construction commenced in August 2015 with the decommissioning of existing turbines and completion is expected late summer 2016.

***Seasonality***

Output across our Landfill Gas portfolio is not generally subject to seasonal variations. However, under the terms of the BG Landfill Gas PPA, the electricity price for output of our landfill gas portfolio is re-set every six months, for periods commencing on April 1 and October 1. As the price for the six months commencing on October 1 is the "winter" price, which tends to be higher than the price for the six months commencing on April 1 due to higher electricity demand, revenue generated by our Landfill Gas Business during this period is usually higher.

The operations of our Biomass Business are more seasonal. Each of our five power stations undertakes an annual maintenance outage to perform checks of plant and equipment, maintenance, overhauls and capital improvements, which are planned in detail and tend to last around 14 days. We usually schedule these planned annual outages during the summer months (typically in the second financial quarter) to take advantage of the extra day-light hours and because thermal generation plants, such as our power stations, tend to be less efficient and unable to reach full output in the warmer summer months, as they are limited by the amount of steam which can be condensed at higher summer temperatures. As a result, output from our biomass power stations is typically lower in the second financial quarter, while operational costs are higher during this period, reflecting increased capital and maintenance expenditures. In addition, Ely has a seasonal export capacity, which allows greater electricity output of up to 38 MW in the period December to April each year, compared to up to either 34 MW or 35 MW during the rest of the year, thus positively affecting output, revenue and profitability during this period.

Our Biomass Business also includes sales of our Fibrophos fertilizer. We generally make approximately 75% of our annual fertilizer sales in the second quarter of the financial year, coinciding with the timing of the main agricultural harvest across the United Kingdom. Additionally, as the timing of the annual harvest is driven by weather conditions, a wet or late spring or a wet summer may result in a late harvest which can shorten the fertilizer spreading season and as a result the duration of our fertilizer sales season.

We account for ROC Recycle payments on a cash basis and generally receive these payments in October or November in respect of the previous compliance year to March 31.

In addition, we usually accrue annual triad revenue in March of each year. Triad periods are announced at the end of March each year, being the three half hour periods (ten days apart) between November and February with the highest electricity demand across the United Kingdom. In order to provide an incentive on consumers to minimize consumption during the triad peak times, electricity suppliers are charged a fee by the transmission system operator for the electricity they supply during the triad periods. Output from embedded energy generators such as our Biomass Business and Landfill Gas Business reduces the supply of electricity from the national electricity transmission system to the relevant local distribution network during triad periods, allowing energy suppliers to reduce Supplier Transmission Network Use of System charges. Under our BG Biomass PPA and BG Landfill Gas PPA, British Gas passes through to us a portion of the savings it receives. As a result of the foregoing, we tend to book a greater portion of our revenue in the third and fourth quarter of each financial year.

**Management's discussion and analysis of financial condition and results of operations**

**Group Organization**

We manage our operations by business units, referred to in this quarterly report as our "businesses," which include our Biomass Business and our Landfill Gas Business. Our Biomass Business generated turnover of £21.2 million in the quarter ended December 31, 2015 compared to £23.0 million in the quarter ended December 31, 2014. Turnover generated in our Biomass Business predominantly consists of revenue from the sale of electricity, ROCs and embedded benefits to electricity suppliers under our PPAs, accounting for an aggregate of £20.8 million and £22.4 million for the quarters ended December 31, 2015 and 2014, respectively.

Turnover generated in our Biomass Business also includes turnover from the sale of Fibrophos fertilizer, this element of our business is seasonal with the majority of sales arising during March, August and September each year. Revenue in the quarters ended December 31, 2015 and 2014 was £0.3 million.

Our Landfill Gas Business generated turnover of £7.5 million for the quarter ended December 31, 2015 compared with £9.1 million for the quarter ended December 31, 2014, representing 26.1% and 28.5% of group turnover in each period respectively. Turnover generated in our Landfill Gas Business predominantly consists of revenue from the sale of electricity, ROCs and embedded benefits to electricity suppliers under our PPAs.

**Analysis of Key Operating and Performance Measures**

We use several key operating measures output, availability and average revenue per MWh, to track the performance of our business. Additionally, we rely on load factor to track the performance of our Biomass Business. None of these terms are measures of financial performance under UK GAAP, nor have these measures been reviewed by an outside auditor, consultant or expert. These measures are derived from management information systems. As these terms are defined by our management, they may not be comparable to similar terms used by other companies.

Output describes the amount of electricity generated over a specified period of time.

Availability measures the number of hours a power station or an engine is available to generate electricity during a certain period after subtracting scheduled and unscheduled maintenance, divided by the theoretical maximum of available number of hours over the period.

Load factor represents the actual output generated by our power stations in a given period as a percentage of the theoretical maximum output of that plant. The theoretical maximum output assumes that the plant runs at its net capacity continuously over such period. Two elements generally affect output: (i) scheduled or unscheduled outages of the plant, during which a power station does not generate electricity (for example, to undertake maintenance activity); or (ii) electricity generation at below maximum net capacity due to, for example, operational issues or combustion conditions.

Average revenue per MWh represents the turnover from electricity generation during any period divided by the output generated during the same period.

The following table sets forth certain key operating measures for the Group for the quarter and nine month periods ended December 31, 2014 and 2015:

| | **Quarter ended December 31** | | **Nine months ended December 31** | |
|---|---|---|---|---|
| | **2014** | **2015** | **2014** | **2015** |
| **Biomass Business** | | | | |
| Output (in MWh) | 199,368 | 207,900 | 555,312 | 585,617 |
| Availability (in %) | 89.8 | 89.8 | 85.0 | 87.8 |
| Average load factor | 82.8% | 84.8% | 77.2% | 79.8% |
| *Thetford* | 76.0% | 82.6% | 74.1% | 78.2% |
| *Ely* | 88.3% | 88.6% | 80.8% | 79.9% |
| *Glanford* | 95.0% | 93.2% | 83.0% | 86.2% |
| *Eye* | 90.2% | 86.6% | 79.8% | 82.7% |
| *Westfield* | 64.6% | 65.8% | 65.2% | 72.3% |
| Average Revenue per MWh (in £) | 112.33 | 100.03 | 112.02 | 104.65 |

| | Quarter ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| **Landfill Gas Business** | | | | |
| Output (in MWh) .................................................... | 95,567 | 87,432 | 282,940 | 260,401 |
| Availability (in %) .................................................... | 94.1 | 94.9 | 94.9 | 95.2 |
| Average revenue per MWh (in £) .......................... | 95.46 | 85.54 | 91.92 | 86.10 |

***Biomass Business***

*Quarter Ended December 31, 2015 compared to the Quarter Ended December 31, 2014*

For the quarter ended December 31, 2015, output of our Biomass Business was 207,900 MWh, which represented an increase of 8,532 MWh, or 4.3%, compared to 199,368 MWh for the quarter ended December 31, 2014. This increase results from the increasing load factor seen between the two periods.

For the quarter ended December 31, 2015, the average availability across our five power stations was 89.8%, in line with the quarter ended December 31, 2014. This reflects a continuation of established plant condition monitoring routines and proactive maintenance. During the quarter ended December 31, 2015, in addition to annual outage at Westfield, there has been the usual cycle of short maintenance and cleaning outages at the biomass assets, but no unplanned outages of any significant length or worthy of note.

For the quarter ended December 31, 2015, the average load factor of our five power stations was 84.8%, which represented an increase of 2.0 percentage points compared with 82.8% for the quarter ended December 31, 2014. This increase was driven particularly by Thetford where output and load factor increased by 8.6%between the two quarters reflecting an increase in availability in the latter period.

For the quarter ended December 31, 2015, average revenue per MWh of our Biomass Business was £100.03, which represented a reduction of £12.30, or 10.9%, compared with £112.33 for the quarter ended December 31, 2014. This reduction reflects the removal of LECs from August 1, 2015 and the lower electricity price receivable pursuant to the BG Biomass PPA which reduced from £44.95 to £39.89 per MWh, driven by lower wholesale market electricity prices during the relevant PPA calculation periods. In addition the Recycle ROC value received in the quarter was £0.26 per ROC (net) lower than in the quarter ended December 31, 2014.

*Nine months Ended December 31, 2015 Compared to the Nine Months Ended December 31, 2014*

The output of our Biomass Business was 585,617 MWh in the nine months ended December 31, 2015, representing an increase of 30,305 MWh, or 5.5%, compared to 555,312 MWh for the nine months ended December 31, 2014. This increase was driven by improved availability.

For the nine months ended December 31, 2015, the average availability across our five power stations was 87.8%, an increase of 2.8% from 85.0% for the nine months ended December 31, 2014. This increase reflected improved availability at all five power stations driven by the group’s preventative maintenance regime. The improvement at Westfield, Eye and Thetford was particularly marked, reflecting operational improvements and the success of annual maintenance outages in 2014.

For the nine months ended December 31, 2015, the average load factor of our five power stations was 79.8%, which represented an increase of 2.6 percentage points from 77.2% for the nine months ended December 31, 2014.

In the nine months ended December 31, 2015, average revenue per MWh of our Biomass Business was £104.65, representing a decrease of £7.37, or 6.6%, compared to £112.02 for the nine months ended December 31, 2014. This decrease reflects the removal of LECs from August 1, 2015, lower electricity prices over the latter nine month period and a lower Recycle ROC value slightly offset by the annual indexation of the ROC buy-out price.

***Landfill Gas Business***

*Quarter Ended December 31, 2015 compared to the Quarter Ended December 31, 2014*

For the quarter ended December 31, 2015, output from our Landfill Gas Business was 87,432 MWh, which represented a decrease of 8,135 MWh, or 8.5%, compared to 95,567 MWh for the quarter ended December 31, 2014. A reduction in output can be expected due to the fact that 15 of the 25 sites from which the Landfill Gas Business operates are closed to new waste deposits and gas volumes from these sites will decrease over time. However, output in the quarter ended December 31, 2015 has been further impacted by restricted access to gas at the largest site in the portfolio due to capping and site re-profiling works required following its closure to new waste. This work is nearing completion and additional wells were drilled in December 2015. Further, gas extraction has been hampered by leachate and very wet weather particularly impacting our sites in the west of Scotland and the north west of England.

In the quarter ended December 31, 2015, average revenue per MWh of our Landfill Gas Business was £85.54, representing a decrease of £9.92, or 10.4%, compared to £95.46 for the quarter ended December 31, 2014. This reduction reflects the removal of LECs from August 1, 2015 and the lower electricity price receivable pursuant to the BG Landfill Gas PPA which reduced from £47.40 to £42.17 per MWh, driven by lower wholesale market electricity prices during the relevant PPA calculation periods. In addition the Recycle ROC value received in the quarter was £0.28 per ROC (net) lower than in the quarter ended December 31, 2014.

*Nine Months Ended December 31, 2015 Compared to the Nine Months Ended December 31, 2014*

For the nine months ended December 31, 2015 output from our Landfill Gas Business was 260,401 MWh, which represented a decrease of 22,539 MWh, or 7.9%, compared to 282,940 MWh for the nine months ended December 31, 2014. This decrease was the result of a reduction in output from the closed sites within the portfolio and restricted access to gas at two key sites set out above.

Average revenue per MWh of our Landfill Gas Business for the nine months ended December 31, 2015 was £86.10, this represented a reduction of £5.82, or 6.3%, compared to £91.92 for the nine months ended December 31, 2014. This decrease reflects the removal of LECs from August 1, 2015, lower electricity prices over the latter nine month period and a lower Recycle ROC value slightly offset by the annual indexation of the ROC buy-out price.

***Discussion of Financial Results***

*Revenue from generation*

The following table provides a breakdown of turnover from electricity generation of our Biomass Business and our Landfill Gas Business for the quarters and nine month periods ended December 31, 2014 and 2015:

| | **Quarter ended December 31** | | **Nine months ended December 31** | |
|---|---|---|---|---|
| | **2014** | **2015** | **2014** | **2015** |
| **(in thousands of £)** | | | | |
| **Biomass Business** | | | | |
| Wholesale market electricity price...................... | 9,270 | 8,226 | 26,595 | 25,337 |
| ROC buyout…………………………………………………..…….. | 11,450 | 11,932 | 32,390 | 34,164 |
| LEC sales…………………………………………………..………… | 873 | - | 2,432 | 1,151 |
| ROC Recycle…………………………………………………… | 530 | 265 | 530 | 265 |
| Embedded benefits………………………………………… | 273 | 373 | 260 | 366 |
| | **22,396** | **20,796** | **62,207** | **61,283** |
| **Landfill Gas Business** | | | | |
| Wholesale market electricity price...................... | 4,522 | 3,695 | 12,843 | 10,748 |
| ROC buyout…………………………………………………..…….. | 3,592 | 3,344 | 10,555 | 9,973 |
| LEC sales…………………………………………………..………… | 454 | - | 1,335 | 552 |
| ROC Recycle…………………………………………………… | 208 | 102 | 208 | 102 |
| Embedded benefits………………………………………… | 347 | 338 | 1,068 | 1,045 |
| | **9,123** | **7,479** | **26,009** | **22,420** |

Biomass Business turnover from electricity generation decreased in the quarter ended December 31, 2015 compared to the same period in the prior year by £1.6 million (7.1%). The decrease reflects the removal of LECs, lower electricity prices and a lower Recycle ROC value received in the current period, offset in part by higher output across the biomass generation portfolio and the annual indexation of the ROC buyout value.

Output increased by 4.3% in the quarter ended December 31, 2015 compared with the quarter ended December 31, 2014 from 199,368 MWh to 207,900 MWh.

Landfill Gas Business turnover from electricity generation fell from £9.1 million in the quarter ended December 31, 2014 to £7.5 million in the quarter ended December 31, 2015. This reduction reflects lower output combined with the removal of LECs from August 1, 2015 and lower electricity prices.

*Revenue from Fibrophos fertilizer sales*

Due to the seasonal nature of the fertilizer business, sales of Fibrophos fertilizer are generally at their lowest during the third quarter each year. Sales volumes were broadly in line with expectations in the quarter ended December 31, 2015 at 3,965 tonnes, an increase of 1,046 tonnes compared to 2,919 tonnes in the quarter ended December 31, 2014. Sales revenue was £0.3 million for the quarter ended December 31, 2015, in line with the quarter ended December 31, 2014.

For the nine months ended December 31, 2015 sales volumes were 69,865 tonnes, an increase of 14,150 tonnes or 25.4% compared with the nine months ended December 31, 2014. Sales revenue was £4.8 million in the nine months ended December 31, 2015, in line with the nine months ended December 31, 2014. The reduction in unit revenue is reflective of weak underlying commodity prices (phosphate and potash), more aggressive sales targets and the sales mix. The summer was challenging in terms of weather, with a couple of weeks of heavy rain and wet weather at the end of August and in the middle of September which hampered sales efforts at key times, despite these issues sales volumes increased by 25%.

*Fuel Costs*

The following table provides an overview of our total fuel costs for our Biomass Business for the quarters and nine months ended December 31, 2014 and 2015 are summarized below:

| | Quarter ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| **(in thousands of £)** | **2014** | **2015** | **2014** | **2015** |
| Fuel costs…………………………................... | 8,646 | 8,857 | 24,835 | 24,410 |

Fuel costs consist of biomass fuel costs (including associated haulage and storage), fossil fuel and sorbent costs. Fuel costs decreased by £0.4 million or 1.7%, from £24.8 million in the nine months ended December 31, 2014 to £24.4 million in the nine months ended December 31, 2015 despite an increase in output. The majority of this reduction arose at Ely, where the delivered straw costs were lower in the nine months ended December 31, 2015 compared to the nine months ended December 31, 2014, with savings derived from the switch to 100% contract straw with savings in storage, haulage and wastage costs. Further, there was a reduction in the fossil fuel usage and associated costs at Westfield Power Station in the nine months ended December 31, 2015 compared to the same period in the previous year, due to an improved biomass fuel mix since the winter of 2014 and better combustion.

*Cost of Fibrophos fertilizer sales*

Cost of sales for Fibrophos in the nine months ended December 31, 2015 were £3.1 million, an increase of £0.5 million or 19.2% compared to £2.6 million in the nine months ended December 31, 2014 reflecting the increase in sales volumes.

*Landfill Gas Royalties*

We have secured access to our 25 landfill sites pursuant to long-term gas supply agreements with the relevant landfill site owner or operator. Pursuant to the gas supply agreements, we have the right to use the gas produced at the site in return for payment of a royalty fee to the landfill owner or operator. Royalty mechanisms vary from site to site, but are based on a percentage of the revenue received in respect of a site.

The following table provides an overview of our royalty amounts due to landfill owners and operators for the quarters and nine month periods ended December 31, 2014 and 2015:

| | Quarter ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2014** | **2015** | **2014** | **2015** |
| **(in thousands of £)** | | | | |
| Royalties due to landfill gas site owners and operators......... | 1,742 | 1,521 | 4,711 | 4,598 |
| **(as a percentage of turnover)** | | | | |
| Royalties due to landfill gas site owners and operators......... | 19.1% | 20.3% | 18.1% | 20.5% |

The amount of royalties payable has reduced in both the quarter and the nine month period compared to the equivalent periods in the previous year reflecting the reduction in revenues. Royalties for each individual site are calculated by reference to its revenue. Overall royalties reflect the relative mix of portfolio revenue by site and any changes to gas agreements. The overall royalty percentage has increased in both periods and there have been two royalty changes relevant to understanding this change (i) one gas agreement was extended for 20 years to September 2034 but at a higher royalty; and (ii) a previously negotiated gas agreement extension included a higher royalty from January 2015.

**Results of Operations**

***Comparison of the Quarter Ended December 31, 2015 and the Quarter Ended December 31, 2014***

The following table sets forth our results of operations for the quarter ended December 31, 2015 compared to the quarter ended December 31, 2014.

| | For the quarter ended December 31, | | |
|---|---|---|---|
| (in thousands of £) | 2014 | 2015 | Change (%) |
| **Group turnover** | **32,150** | **28,700** | **(10.7)** |
| Biomass Business | 23,017 | 21,214 | (7.8) |
| Landfill Gas Business | 9,133 | 7,486 | (18.0) |
| Cost of sales | (11,962) | (11,792) | 1.4 |
| **Gross profit** | **20,188** | **16,908** | **(16.2)** |
| Administrative expenses | (11,731) | (12,669) | (7.9) |
| **Group operating profit** | **8,457** | **4,239** | **(49.9)** |
| Share of operating profit in joint venture | 241 | 85 | (64.7) |
| **Total operating profit: group and share of joint venture** | **8,698** | **4,324** | **(50.3)** |
| Interest receivable and similar income | 5 | 11 | 120.0 |
| Interest payable and similar charges | (3,499) | (6,079) | (73.7) |
| **Profit/(loss) on ordinary activities before taxation** | **5,204** | **(1,744)** | **(133.5)** |
| Tax on profit/(loss) on ordinary activities | (1,346) | 491 | 136.5 |
| **Profit/(loss) for the period** | **3,858** | **(1,253)** | **(132.5)** |

*Group Turnover*

Group turnover for the quarter ended December 31, 2015 was £28.7 million, a decrease of £3.5 million, or 10.7%, from £32.2 million for the quarter ended December 31, 2014. Whilst output from the Biomass Business increased, unit revenue was reduced when comparing the quarter ended December 31, 2015 to the quarter ended December 31, 2014 reflecting the removal of LECs from August 1, 2015 , lower wholesale electricity prices and a lower Recycle ROC value offset slightly by the annual indexation of the ROC buy-out value. Output from the Landfill Gas Business fell comparing the quarter ended December 31, 2015 to the quarter ended December 31, 2014 and in addition its revenue per MWh was impacted by the same external factors as the Biomass Business.

<u>Biomass Business</u>

Turnover in our Biomass Business for the quarter ended December 31, 2015 was £21.2 million, a decrease of £1.8 million, or 7.8% from £23.0 million for the quarter ended December 31, 2014. Output from the Biomass Business increased in the quarter ended December 31, 2015 compared with the prior year period, but in revenue terms this was more than offset by the removal of LECs, lower wholesale electricity prices and a lower Recycle Roc value which resulted in a reduction in revenue per MWh from £112 to £100.

<u>Landfill Gas Business</u>

Turnover in our Landfill Gas Business for the quarter ended December 31, 2015 was £7.5 million, a decrease of £1.6 million, or 18.0% from £9.1 million for the quarter ended December 31, 2014. This decrease was attributable to lower output and a reduction in revenue per MWh from £95 to £86 due to the removal of LECs, lower wholesale electricity prices and a lower ROC Recycle value.

*Cost of Sales*

Cost of sales includes biomass fuel, fossil fuel and sorbent costs, landfill gas royalties, engine maintenance costs and the cost of Fibrophos sales comprising processing, storage, haulage and commission. For the quarter ended December 31, 2015 cost of sales were £11.8 million, a reduction of £0.2 million, or 1.4%, from £12.0 million for the quarter ended December 31, 2014.

Reflecting the increase in output in the Biomass Business, fuel costs (biomass fuel, fossil fuel and sorbent) increased by £0.2 million in the quarter ended December 31, 2015 when compared to the same quarter in the previous year however this was more than offset by a reduction in landfill gas royalties due to lower revenues and a reduction in engine maintenance costs.

*Administrative Expenses*

Administrative expenses mainly comprise plant maintenance costs, depreciation, salaries and overheads. For the quarter ended December 31, 2015 administrative expenses were £12.7 million, an increase of £0.9 million, or 7.9%, from £11.8 million for the quarter ended December 31, 2014. This increase includes one-off costs totaling £0.7m relating to (i) bonuses payable following the sale of MRE UK to Eucalyptus Energy Limited; and (ii) restructuring costs associated with the closure of Energy Power Resources Limited's small administration office in Paris.

*Interest Payable and Similar Charges*

Interest payable and similar charges for the quarter ended December 31, 2015 were £6.1 million, an increase of £2.6 million, or 73.7%, from £3.5 million for the quarter ended December 31, 2014. The interest charges in the quarter ended December 31, 2015 include interest and charges of £2.9 million on the £171 million (net of repayment) senior secured notes; issued in February 2015 with an interest rate of 6.75%. Equivalent bank interest and charges for the three months ended December 31, 2014 amounted to £1.5 million in respect of third party debt which was repaid as part of the senior secured notes refinancing.

*Tax on Profit/(loss) on Ordinary Activities*

Tax on the loss on ordinary activities for the quarter ended December 31, 2015 was a credit of £0.5 million, a decrease of £1.8 million from the £1.3 million charge for the quarter ended December 31, 2014 reflecting the difference between the profit/(loss) before tax in the two periods.

*Profit/(loss) for the Period*
The loss for the quarter ended December 31, 2015 was £1.3 million, compared with the £3.8 million profit for the quarter ended December 31, 2014.

**Results of Operations**

***Comparison of the Nine months Ended December 31, 2015 and the Nine months Ended December 31, 2014***

The following table summarizes our results of operations for the nine months ended December 31, 2015 compared to the nine months ended December 31, 2014.

| | For the nine months ended December 31, | | |
|---|---|---|---|
| (in thousands of £) | 2014 | 2015 | Change (%) |
| **Group turnover** | **93,520** | **88,860** | **(5.0)** |
| Biomass Business | 67,471 | 66,429 | (1.5) |
| Landfill Gas Business | 26,049 | 22,431 | (13.9) |
| Cost of sales | (35,859) | (35,457) | 1.1 |
| **Gross profit** | **57,661** | **53,403** | **(7.4)** |
| Administrative expenses | (38,267) | (39,188) | (2.4) |
| **Group operating profit** | **19,394** | **14,215** | **(26.7)** |
| Share of operating profit in joint venture | 274 | 256 | (6.6) |
| **Total operating profit: group and share of joint venture** | **19,668** | **14,471** | **(26.4)** |
| Interest receivable and similar income | 16 | 57 | 256.3 |
| Interest payable and similar charges | (10,726) | (19,155) | (78.6) |
| **Profit/(loss) on ordinary activities before taxation** | **8,958** | **(4,627)** | **(151.7)** |
| Tax on profit/(loss) on ordinary activities | (2,264) | 1,391 | 161.4 |
| **Profit/(loss) for the period** | **6,694** | **(3,236)** | **(148.3)** |

*Group Turnover*

Group turnover for the nine months ended December 31, 2015 was £88.9 million, a decrease of £4.7 million, or 5.0%, from £93.5 million for the nine months ended December 31, 2014. Whilst output from the Biomass Business increased, unit revenue was reduced when comparing the nine months ended December 31, 2015 to the nine months ended December 31, 2014, reflecting the removal of LECs from August 1, 2015, lower wholesale electricity prices and a lower ROC Recycle value offset slightly by the annual indexation of ROC Buy-out. Output from the Landfill Gas Business fell comparing the nine months ended December 31, 2015 to the nine months ended December 31, 2014 and in addition its revenue per MWh was impacted by the same external factors as the Biomass Business.

Biomass Business

Turnover in our Biomass Business for the nine months ended December 31, 2015 was £66.4 million, a reduction of £1.0 million, or 1.5% from £67.5 million for the nine months ended December 31, 2014. Output from the Biomass Business increased in the nine months ended December 31, 2015 compared with the prior year period, partly offsetting the impact of the removal of LECs, lower wholesale electricity prices and a lower ROC Recycle value which resulted in a reduction in electricity revenue per MWh from £112 to £105.

Landfill Gas Business

Turnover in our Landfill Gas Business for the nine months ended December 31, 2015 was £22.4 million, a decrease of £3.6 million, or 13.9% from £26.0 million for the nine months ended December 31, 2014 This decrease was attributable to lower output and a reduction in revenue per MWh from £92 to £86 due to the removal of LECs, lower wholesale electricity prices and a lower ROC Recycle value.

*Cost of Sales*

Cost of sales includes biomass fuel, fossil fuel and sorbent costs, landfill gas royalties, engine maintenance costs and the cost of Fibrophos sales comprising processing, storage, haulage and commission. For the nine months ended December 31, 2015 cost of sales were £35.5 million, a decrease of £0.4 million, or 1.1%, from £35.9 million for the nine months ended December 31, 2014.

Despite the increase in output from the Biomass Business, fuel costs (biomass fuel, fossil fuel and sorbent) decreased by £0.4 million to £24.4 million in the nine months ended December 31, 2015 compared to the same period in the previous year. The majority of this reduction arose at Ely, where the delivered straw cost was lower due to the savings derived from the switch to 100% contract straw and the associated reduction in storage, haulage and wastage costs. Furthermore, there was a reduction in the fossil fuel usage and associated costs at Westfield Power Station in the nine months ended December 31, 2015 compared to the same period in the previous year, due to an improved biomass fuel mix since the winter of 2014 and better combustion. The reduction in overall fuel costs was offset by an increase in the cost of sales in Fibrophos of £0.5 million in the nine months to December 31, 2015 compared to the same period in the previous year due to an increase in sales volumes of 25.4%.

Landfill gas royalties and engine maintenance costs decreased in the nine months ended December 31, 2015 compared to the equivalent period in the previous year resulting in a reduction in cost of sales in the Landfill Gas Business of £0.4m.

*Administrative Expenses*

Administrative expenses mainly comprise plant maintenance costs, depreciation, salaries and overheads. For the nine months ended December 31, 2015 administrative expenses were £39.2 million, an increase of £0.9 million, or 2.4%, from £38.3 million for the quarter ended December 31, 2014. This increase includes one-off costs totaling £0.7m relating to (i) bonuses payable following the sale of MRE UK to Eucalyptus Energy Limited; and (ii) restructuring costs associated with the closure of Energy Power Resources Limited's small administration office in Paris.

*Share of Operating Profit in Joint Venture*

Share of operating profit in joint venture for the nine months ended December 31, 2015 was £0.3 million, and in line with the comparative period.

*Interest Payable and Similar Charges*

Interest payable and similar charges for the nine months ended December 31, 2015 were £19.2 million, an increase of £8.4 million, or 78.6%, from £10.7 million for the nine months ended December 31, 2014. Interest charges for the nine months ended December 31, 2015 include interest and charges of £9.7 million on the £171 million (net of repayment) senior secured notes; issued in February 2015 with an interest rate of 6.75%. Equivalent bank interest and charges for the nine months ended December 31, 2014 amounted to £4.6 million in respect of third party debt which was repaid as part of the senior secured notes refinancing.

On August 14, 2015 MRE UK redeemed £19,000,000 of the original £190 million senior secured notes. The redemption price was 103.00% of the principal amount plus accrued and unpaid interest up to the redemption date. Hence the aggregate redemption amount was £19,616,313, and £616,313 is included within interest charges for the nine months ended December 31, 2015.

Additional interest charges were incurred in the nine months ended December 31, 2015 on the shareholder loan originally provided by MEIF Luxembourg Renewables Sarl which was put in place as part of the acquisition by MRE UK of both the Biomass Business and the Landfill Gas Business on September 26, 2014. The shareholder loan was effectively transferred to Eucalyptus Energy Limited on October 30, 2015, as part of its acquisition of MRE UK.

*Tax on Profit/(loss) on Ordinary Activities*

Tax on profit/(loss) on ordinary activities for the nine months ended December 31, 2015 was a credit of £1.4 million, a reduction of £3.6 million from the £2.2 million charge for the nine months ended December 31, 2014, a result of the difference between the profit/(loss) for the two periods.

*Profit/(loss) for the period*

Loss for the nine months ended December 31, 2015 was £3.2 million, compared with a profit of £6.7 million for the nine months ended December 31, 2014.

# Melton Renewable Energy UK PLC

Condensed Consolidated Interim Financial Information (unaudited)

9 months ended 31 December 2015

**Consolidated profit and loss account**
**for the 9 months ended 31 December 2015 (unaudited)**

| | | ***9 months ended 31 December 2015 £000s*** |
|---|---|---|
| Turnover (including share of joint venture) | | 89,333 |
| Less: Share of joint venture's turnover | | (473) |
| ***Group turnover*** | 2 | **88,860** |
| Cost of sales | | (65,488) |
| ***Gross profit*** | | **23,372** |
| Administrative expenses | | (18,519) |
| ***Operating profit*** | 3 | **4,853** |
| Share of operating profit in joint venture | | 256 |
| ***Total operating profit: group and share of joint venture*** | | **5,109** |
| Interest receivable and similar income | | 57 |
| Interest payable and similar charges | 5 | (19,155) |
| ***Loss on ordinary activities before taxation*** | | **(13,989)** |
| Tax on loss on ordinary activities | 6 | 1,391 |
| ***Loss for the financial period*** | 17 | **(12,598)** |

All items dealt with in the profit and loss account above relate to continuing operations.

There is no material difference between the loss on ordinary activities before taxation and the loss for the period stated above and their historical cost equivalents.

**Consolidated statement of total recognised gains and losses**
**for the 9 months ended 31 December 2015 (unaudited)**

| | | ***9 months ended 31 December 2015 £000s*** |
|---|---|---|
| Loss for the financial period excluding the share of profits of joint venture | | (12,854) |
| Share of joint venture's operating profit for the period | | 256 |
| Loss for the financial period attributable to members of the parent company | 17 | (12,598) |
| ***Total recognised losses relating to the period*** | | **(12,598)** |

**Consolidated balance sheet**
**as at 31 December 2015 (unaudited)**

| | | ***31 December 2015 £000s*** |
|---|---|---|
| ***Fixed assets*** | | |
| *Intangible assets* | 7 | 114,255 |
| *Tangible assets* | 8 | 164,390 |
| | | |
| *Interests in joint venture* | | |
| *- Share of gross assets* | | 8,619 |
| *- Share of gross liabilities* | | (7,722) |
| | 9 | 897 |
| | | **279,542** |
| ***Current assets*** | | |
| *Stocks* | 10 | 12,718 |
| *Debtors: Amounts falling due within one year* | 11 | 26,849 |
| *Debtors: Amounts falling due after more than one year* | 11 | 7,509 |
| *Cash at bank and in hand* | | 20,497 |
| | | **67,573** |
| ***Creditors: amounts falling due within one year*** | 12 | **(18,805)** |
| ***Net current assets*** | | **48,768** |
| ***Total assets less current liabilities*** | | **328,310** |
| ***Creditors: amounts falling due after more than one year*** | 13 | **(295,122)** |
| ***Provisions for liabilities and charges*** | | |
| *Deferred tax* | | (5,758) |
| ***Net assets*** | | **27,430** |
| ***Capital and reserves*** | | |
| *Called up share capital* | 16 | 50,870 |
| *Profit and loss account* | 17 | (23,440) |
| ***Total shareholders' funds*** | 18 | **27,430** |

## Consolidated statement of cash flows
## for the 9 months ended 31 December 2015 (unaudited)

| | Note | *9 months ended 31 December 2015 £000s* |
|---|---|---|
| ***Net cash inflow from operating activities*** | 19 | **28,683** |
| ***Returns on investments and servicing of finance*** | | |
| Interest received | | 57 |
| Interest paid | | (7,065) |
| | | **(7,008)** |
| ***Taxation*** | | **9** |
| ***Capital expenditure and financial investment*** | | |
| Payments to acquire tangible assets | | (2,320) |
| Receipts from sales of tangible fixed assets | | 1 |
| Loans to associate undertaking | | (6,235) |
| | | **(8,554)** |
| **Net cash inflow before financing** | | **13,130** |
| **Financing** | | |
| Decrease in borrowings | | (19,000) |
| **Net cash outflow from financing** | | **(19,000)** |
| ***Decrease in cash*** | 20 | **(5,870)** |

## Notes to the financial information (unaudited)

### 1. Accounting policies

The unaudited condensed consolidated financial information is prepared on the going concern basis, under the historical cost convention in accordance with applicable United Kingdom accounting standards. A summary of the more important accounting policies, which have been applied consistently, are set out below. The condensed consolidated interim financial information does not include all the information or disclosures required in the annual financial statements as they have been prepared for the provision of interim information. The unaudited condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006.

***Basis of consolidation***

The unaudited condensed consolidated financial information include the results of Melton Renewable Energy UK PLC and its subsidiary undertakings (all of which are wholly owned and have uniform accounting policies) using the principles of acquisition accounting such that the results of the subsidiaries are included in the consolidated profit and loss account from the date of acquisition.

Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other ventures under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the gross equity method.

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over who's operating and financial policies the group exercises a significant influence are treated as associates.

***Foreign currencies***

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

***Turnover***

Turnover represents the invoiced value of goods and services for electricity supplied, net of value added tax and trade discounts.

Turnover is derived from, and recognised when, electricity generated is exported to third party customers. Income from recycled renewable obligation certificates ('Recycled ROC') is recognised when the amount is known with reasonable certainty. Turnover generated from the sale of fertiliser is recognised on physical dispatch.

Accrued income comprises income relating to the current period, which has not been invoiced as at the balance sheet date.

**Notes to the financial information (unaudited)**

## 1. **Accounting policies** (continued)

***Intangible fixed assets and amortisation***

Purchased goodwill arises on the acquisition of a business and represents the excess of the fair value of the consideration given over the aggregate of the fair value of the separate net assets acquired. Purchased goodwill is capitalised and stated at cost less accumulated amortisation and provisions for impairment. A review for the potential impairment of goodwill is carried out if events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Such impairment reviews are performed in accordance with Financial Reporting Standard ('FRS') 11 'Impairment of fixed assets and goodwill'. Impairments arising are recorded in the profit and loss account.

Amortisation is calculated on a straight line basis over a period of 12½ years from the date of acquisition, such number of years being the directors' estimate of the period over which benefits may reasonably be expected to accrue from the acquisitions.

***Tangible fixed assets***

Tangible fixed assets are stated at their depreciated replacement cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful economic lives from acquisition using the straight line basis. The expected useful economic lives of the assets to the business are reassessed periodically in the light of experience.

Straight line annual rates of depreciation most widely used are:

| | |
|---|---|
| Freehold land | - nil |
| Buildings | - over 50 years |
| Power Stations | - over 20 to 25 years |
| Plant and machinery | - over 4 to 10 years |
| Assets under construction | - nil |

Modifications made to the power stations are depreciated on a straight line basis over the remaining useful economic lives of these modifications, commencing when the modifications are brought into use. Where projects are part of an annual overhaul the costs are capitalised and depreciated over the useful economic life whereas repairs outside of the annual overhaul are expensed.

The directors annually review their decommissioning assessment to confirm that there are not any material net liabilities or contingencies arising from the commitment to decommission the biomass power stations.

***Impairment***

The carrying value of the group's assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate based upon the Group's weighted average cost of capital that reflects current market assessments of the time value of money and the risks specific to the Group.

**Notes to the financial information (unaudited)**

## 1. **Accounting policies** (continued)

***Investments***

The company's investment in subsidiary undertakings is stated at cost less, where applicable, amounts written off to reflect the value of the underlying net assets of the investment at the balance sheet date.

***Stocks***

Spare parts are valued at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving or defective stock.

Fuel stock (MBM and Litter) are valued on an average cost basis over 1 to 2 months and provision for unusable litter is reviewed monthly and applied to off-site stock.

Fuel stock of straw has been valued at the historic cost per tonne of straw. A provision for unusable straw is identified on an individual stack basis and is reviewed monthly. Stocks are currently used on a first in, first out ("FIFO") basis by age of straw.

Stocks of ash at Fibrophos are valued at the lower of cost and net realisable value to the group.

Stocks of finished goods are valued at raw material cost plus processing and storage costs, or net realisable value if lower.

***Deferred tax***

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

***Government grants***

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

***Pension costs***

The group operates multiple defined contribution personal pension schemes for certain qualifying employees. Employee contributions of varying amounts together with employer contributions of between 3% and 10% are paid monthly to the scheme providers. These contributions are recognised as an expense in the profit and loss account when they fall due.

**Notes to the financial information (unaudited)**

## 1. **Accounting policies** (continued)

***Leases***

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The excess of the lease payments over the recorded lease obligations is treated as a finance charge which is amortised in order to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

***Debt issue costs***

Issue costs associated with senior secured notes are capitalised and netted off against the principal amounts. The costs are amortised over the five year term of the notes in proportion to amounts outstanding.

***Financial instruments***

As the company has not elected to adopt FRS 26, "Financial Instruments: Recognition and Measurement", it is entitled to, and has claimed exemption from, the disclosure requirements of FRS 29, "Financial Instruments; Disclosures". Financial assets and financial liabilities are recognised upon becoming a party to the contractual provisions of the instrument.

*Trade debtors*

Trade debtors are non-interest bearing and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts.

*Trade creditors*
Trade creditors are non-interest bearing and are stated at their nominal value.

*Financial liabilities*
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

*Equity interests*
An equity interest is any contract that gives a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

**Notes to the financial information (unaudited)**

## 2. Segmental analysis

The directors consider the business to operate in three segments, these being biomass, landfill gas and central management and administration. Turnover, operating profit and net assets are analysed by segment below.

Turnover arises solely from the group's principal activities in the United Kingdom, net of value added tax.

***Period ended 31 December 2015***

| | ***Biomass*** | ***Landfill Gas*** | ***Central*** | ***Group*** |
|---|---|---|---|---|
| | ***£000s*** | ***£000s*** | ***£000s*** | ***£000s*** |
| Turnover | 66,429 | 22,431 | - | 88,860 |
| Operating profit/(loss) | 1,978 | 3,928 | (1,053) | 4,853 |
| Share of operating profit in joint venture | 256 | - | - | 256 |
| Operating profit/(loss): group and share of joint venture | 2,234 | 3,928 | (1,053) | 5,109 |
| **Loss on ordinary activities before taxation** | **(3,315)** | **(2,195)** | **(8,479)** | **(13,989)** |

***As at 31 December 2015***

| | ***Biomass*** | ***Landfill Gas*** | ***Central*** | ***Group*** |
|---|---|---|---|---|
| | ***£000s*** | ***£000s*** | ***£000s*** | ***£000s*** |
| **Net assets/(liabilities)** | **39,404** | **(7,470)** | **(4,504)** | **27,430** |

Net assets include certain assets partially offset by liabilities such as goodwill and net debt which have been allocated to the biomass and landfill gas segments proportionally based on their respective fair values at acquisition.

**Notes to the financial information (unaudited)**

## 3. Operating profit

Operating profit is stated after charging the following:

| | ***9 months ended 31 December 2015 £000s*** |
|---|---|
| Depreciation of owned fixed assets | 13,854 |
| Amortisation of goodwill | 7,617 |
| Operating lease rentals | |
| – land and buildings | 256 |
| – other | 192 |

## 4. Employee information

| | ***9 months ended 31 December 2015 £000s*** |
|---|---|
| Wages and salaries | 8,222 |
| Social security costs | 866 |
| Other pension costs | 279 |
| | **9,367** |

The average monthly number of persons employed by the Group during the period was:

| | ***9 months ended 31 December 2015*** |
|---|---|
| Production | 198 |
| Administration | 64 |
| | **262** |

**Notes to the financial information (unaudited)**

## 5. Interest payable and similar charges

| | ***9 months ended 31 December 2015*** ***£000s*** |
|---|---|
| Bond interest payable | 9,736 |
| Interest payable to shareholder company | 8,377 |
| Amortisation of debt issue costs | 826 |
| Other interest and charges | 216 |
| | **19,155** |

## 6. Tax on loss on ordinary activities

Income tax expense is recognised based on management's best estimate of the weighted average annual statutory income tax rate expected for the full financial year as a percentage of taxable profit ("the effective tax rate").

## 7. Intangible assets

***As at 31 December 2015 (unaudited)***

| | **Goodwill** ***£000s*** |
|---|---|
| Cost: | |
| At 1 April 2015 and 31 December 2015 | **126,950** |
| Accumulated amortisation: | |
| On 1 April 2015 | (5,078) |
| Charge for the period | (7,617) |
| **At 31 December 2015** | **12,695** |
| Net book value: | |
| **At 31 December 2015** | **114,255** |
| At 31 March 2015 | 121,872 |

**Notes to the financial information (unaudited)**

## 8. Tangible assets

***As at 31 December 2015 (unaudited)***

| | *Freehold land and buildings £000s* | *Power stations £000s* | *Plant and machinery £000s* | *Assets under construction £000s* | *Total £000s* |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| On 1 April 2015 | 4,541 | 154,466 | 26,038 | 302 | 185,347 |
| Additions | 16 | 1,817 | 211 | 276 | 2,320 |
| Disposals | - | (66) | (13) | - | (79) |
| **At 31 December 2015** | **4,557** | **156,217** | **26,236** | **578** | **187,588** |
| **Accumulated depreciation:** | | | | | |
| On 1 April 2015: | 32 | 7,859 | 1,466 | - | 9,357 |
| Charge for the period | 44 | 11,958 | 1,852 | - | 13,854 |
| Disposal | - | - | (13) | - | (13) |
| **At 31 December 2015** | **76** | **19,817** | **3,305** | **-** | **23,198** |
| **Net book value:** | | | | | |
| **At 31 December 2015** | **4,481** | **136,400** | **22,931** | **578** | **164,390** |
| At 31 March 2015 | 4,509 | 146,607 | 24,572 | 302 | 175.990 |

**Notes to the financial information (unaudited)**

## 9. Investments

Energy Power Resources Limited, an indirect subsidiary of Melton Renewable Energy UK PLC, owns 50% of the issued share capital of Yorkshire Windpower Limited as part of a 50:50 joint venture with E.ON Climate & Renewables UK Operations Limited. The principal activities of Yorkshire Windpower Limited are the ownership, maintenance and operation of two wind farms at Ovenden Moor and Royd Moor in Yorkshire and the sale of the associated electrical generation under a power purchase agreement.

| | ***£000s*** |
|---|---|
| At 31 March 2015 | 833 |
| Share of profit retained by joint venture | 64 |
| **At 31 December 2015 (unaudited)** | **897** |

Additional disclosures are given in respect of Yorkshire Windpower Limited, which exceeds certain thresholds under FRS 9 “Associates and Joint Ventures”, as follows:

| | ***31 December 2015 £000s*** |
|---|---|
| Share of: | |
| Fixed assets | 8,075 |
| Current assets | 544 |
| **Gross assets** | **8,619** |
| Liabilities due within one year | (327) |
| Liabilities due after more than one year | (7,395) |
| **Gross liabilities** | **(7,722)** |
| **Net assets** | **897** |

The tangible fixed assets of the joint venture were revalued to depreciated replacement cost as part of the fair value exercise undertaken on the acquisition of the Energy Power Resources Limited group.

| | ***31 December 2015 £000s*** |
|---|---|
| Share of: | |
| Provisions for liabilities | |
| Arising upon decommissioning | **265** |
| Share of: | |
| Capital commitments | |
| Capital expenditure contracted for at 31 December 2015 but not yet incurred | **4,275** |

**Notes to the financial information (unaudited)**

## 10. Stocks

| | *31 December 2015 £000s* |
|---|---|
| Ash stock | 2,767 |
| Fuel, spare parts and consumables | 9,951 |
| | **12,718** |

The replacement cost of stocks does not differ materially from the numbers disclosed above.

## 11. Debtors

| | *31 December 2015 £000s* |
|---|---|
| **Amounts falling due within one year** | |
| Trade debtors | 822 |
| Prepayments and accrued income | 21,942 |
| Corporation tax debtor | 4,085 |
| | **26,849** |
| **Amounts falling due after more than one year** | |
| Amounts owed by associate undertakings | 7,509 |
| | **34,358** |

## 12. Creditors: amounts falling due within one period

| | *31 December 2015 £000s* |
|---|---|
| Interest on senior secured notes | 4,809 |
| Trade creditors | 1,600 |
| Taxation and social security | 2,600 |
| Accruals and deferred income | 9,796 |
| | **18,805** |

**Notes to the financial information (unaudited)**

## 13. Creditors: amounts falling due after more than one period

| | *31 December 2015 £000s* |
|---|---|
| Senior secured notes (note 14) | 166,159 |
| Shareholder loan (note 15) | 128,963 |
| | **295,122** |

The senior secured notes are repayable on 1 February 2020, bear interest at 6.75% and are guaranteed by the subsidiary group companies of Melton Renewable Energy UK PLC. The shareholder loan notes are unsecured, are repayable no earlier than 1 February 2021 and bear interest at 9%.

## 14. Senior secured notes

| | *31 December 2015 £000s* |
|---|---|
| Senior secured notes (note 14) | **166,159** |

On 29 January 2015, Melton Renewable Energy UK PLC issued £190,000,000 senior secured notes with an interest rate of 6.75% and a repayment date of 1 February 2020.The proceeds of the notes were used to repay in full the existing bank facilities within Melton Renewable Energy (Holdings) Limited and Melton LG Energy Limited, both subsidiaries of Melton Renewable Energy UK PLC.

On August 14, 2015 Melton Renewable Energy UK PLC redeemed £19,000,000 of the senior secured notes. The redemption price was 103% of the principal.

Group and company senior secured notes are stated net of unamortised issue costs of £4,841,000. The company incurred total issue costs of £5,787,000 in respect of the senior secured notes. These costs, together with the interest expense, are allocated to the profit and loss account over the term of the notes. Interest is calculated using the effective interest rate method.

## 15. Shareholder loan

As at the incorporation of the Group, MEIF Luxembourg Renewables Sarl was the registered holder of £47,193,000 loan notes issued by Melton Renewable Energy (Holdings) Limited on 23 September 2005. The loan notes, together with all rights and interest attached thereto, were purchased by Melton Renewable Energy UK PLC on 26 September 2014.

**Notes to the financial information (unaudited)**

## 15. Shareholder loan (continued)

As at the incorporation of the Group, MEIF Luxembourg Renewables Sarl was also the registered holder of £18,208,000 loan notes issued by Melton LG Holding Limited on 21 February 2007. The loan notes, together with all rights and interest attached thereto, were purchased by Melton Renewable Energy UK PLC on 26 September 2014.

Eucalyptus Energy Limited is the registered holder of £128,962,757 loan notes issued by Melton Renewable Energy UK PLC on 26 September 2014. The notes are unsecured and bear interest at 9% per annum. They are due to be repaid no earlier than 1 February 2021.

## 16. Called up share capital

| | *31 December 2015 £000s* |
|---|---|
| *Authorised* | |
| 50,870,000 ordinary shares of £1 each | **50,870** |
| *Allotted and fully paid* | |
| 50,870,000 ordinary shares of £1 each | **50,870** |

On incorporation, share capital of £50,000 was created, divided into 50,000 shares of £1 each. Of this, 50,000 shares of £1 were issued but not fully paid.

On 26 September 2014, the authorised share capital of the company was increased from £50,000 to £50,870,000 by the creation of 50,820,000 new ordinary shares of £1 each issued as part of the acquisition to MEIF Luxembourg Renewables Sarl, the company's only shareholder.

## 17. Profit and loss account

| | *Profit and loss account £000s* |
|---|---|
| On 1 April 2015 | (10,842) |
| Loss for the financial period | (12,598) |
| **At 31 December 2015** | **(23,440)** |

**Notes to the financial information (unaudited)**

## 18. Reconciliation of movements in shareholders' funds

| | *Share capital £000s* | *Profit and loss account £000s* | *Total £000s* |
|---|---|---|---|
| On 1 April 2015 | 50,870 | (10,842) | 40,028 |
| Loss for the financial period | - | (12,598) | (12,598) |
| **At 31 December 2015** | **50,870** | **(23,440)** | **27,430** |

## 19. Reconciliation of operating profit to net cash inflow from operating activities

| | *Nine months ended 31 December 2015 £000s* |
|---|---|
| Operating profit | 4,853 |
| Depreciation | 13,854 |
| Amortisation of goodwill | 7,617 |
| (Increase) in stocks | (356) |
| Decrease in debtors | 4,759 |
| (Decrease) in creditors | (2,044) |
| **Net cash inflow from operating activities** | **28,683** |

**Notes to the financial information (unaudited)**

## 20. Reconciliation of net cash flow to movement in net debt

*(a) Movement in net debt*

| | ***Period ended 31 December 2015 £000s*** |
|---|---|
| Decrease in cash | (5,870) |
| Repayment of senior secured notes | 19,000 |
| Non cash movements | (9,129) |
| **Movement in net debt** | **4,001** |
| Net debt at 1 April 2015 | (278,626) |
| **Net debt at 31 December 2015** | **(274,625)** |

*(b) Analysis of changes in net debt (unaudited)*

| | *At 1 April 2015 £000s* | *Cash flow £000s* | *Non-cash movements £000s* | ***At 31 December 2015 £000s*** |
|---|---|---|---|---|
| Cash at bank and in hand | 26,367 | *(5,870)* | - | **20,497** |
| **Shareholder company loan** | | | | |
| Debt due after more than one year | (120,586) | - | (8,377) | **(128,963)** |
| **Senior secured notes:** | | | | |
| Senior secured notes (issued)/repaid | (190,000) | *19,000* | - | **(171,000)** |
| Debt issue costs paid | 5,593 | - | (752) | **4,841** |
| **Total (unaudited)** | (278,626) | 13,130 | (9,129) | **(274,625)** |

Non cash movements relating to the shareholder loan represent loan interest for the nine months to 31 December 2015 which has been capitalised and included in the principal balance outstanding.

**Notes to the financial information (unaudited)**

## 21. Related party transactions

During the period the group received, in the normal course of business, from Yorkshire Windpower Limited, a 50% joint venture investment, £70,950 for management and accountancy services, all of which was outstanding at the end of the period.

## 22. Pension costs

The group contributes to a defined contribution personal pension schemes for certain qualifying employees. The costs for the period are shown in note 4. Assets of the scheme are held in independently administered funds. Outstanding contributions at 31 December 2015 amounted to £31,369.

## 23. Ultimate parent company

As at the balance sheet date Eucalyptus Energy Limited was the immediate parent undertaking and Fern Trading Limited was the ultimate parent undertaking. The directors regard the ultimate controlling party as Fern Trading Limited..

## COMPARISON OF LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Combined Financial Information to the Condensed Consolidated Interim Financial Information

The table below provides a comparison of the loss on ordinary activities before taxation between the Combined Financial Information for the nine months ended December 31, 2015 (the "Combined Results") and the Consolidated Interim Financial Information for the nine months ended December 31, 2015 (the "Consolidated Results").

| | *Unaudited Combined 9 months ended 31 December 2015 £000s* | *Unaudited Consolidated 9 months ended 31 December 2015 £000s* | *Difference £'000s* |
|---|---|---|---|
| ***Group turnover*** | **88,860** | **88,860** | **-** |
| Cost of sales [1] | (35,457) | (65,488) | (30,031) |
| ***Gross profit*** | **53,403** | **23,372** | **(30,031)** |
| Administrative expenses | (39,188) | (18,519) | 20,669 |
| ***Group operating profit*** [2] | **14,215** | **4,853** | **(9,362)** |
| Share of operating profit in joint venture | 256 | 256 | - |
| ***Total operating profit: group and share of joint venture*** | **14,471** | **5,109** | **(9,362)** |
| Interest receivable and similar income | 57 | 57 | - |
| Interest payable and similar charges | (19,155) | (19,155) | - |
| ***Loss on ordinary activities before taxation*** | **(4,627)** | **(13,989)** | **(9,362)** |

Notes

(1) In the condensed consolidated interim financial information (unaudited) the directors have adopted a broader classification of cost of sales to include all plant maintenance, depreciation and operational staff costs. The impact of the reclassification increases cost of sales by £20.7m and decreases administrative expenses by the same amount but has no impact on the group's loss or net assets.

(2) The reduction in group operating profit arises due to:

i. an increase in fixed asset depreciation of £5.7 million resulting from the upwards revaluation of fixed assets to their depreciated replacement cost at the acquisition date of the group by MRE UK PLC; and
ii. an increase in goodwill amortisation of £3.7 million resulting from the amortisation of goodwill arising upon acquisition of the group by MRE UK PLC.