# Melton Renewable Energy UK PLC

# £152,000,000 6.75% Senior Secured Notes due 2020

Issued by Melton Renewable Energy UK PLC

Quarterly Report (Q3 – 2016/17)

Financial Results for the quarter and nine months ended March 31, 2017

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## 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;
- 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.

## KEY EVENTS AND RECENT DEVELOPMENTS

### 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 Agreements ("PPA's") for any future periods. Any decreases in wholesale electricity prices, whether temporary or permanent, may adversely affect our business, financial condition and results of operations.

The wholesale electricity prices the Biomass and Landfill Gas businesses receive pursuant to their respective PPA's with British Gas Trading Limited are fixed in advance. The electricity price the Biomass Business receives is fixed annually for the twelve months commencing October 1, based on the average wholesale market electricity future prices over a three-month calculation period (the preceding June, July and August). The electricity price the Landfill Gas Business receives is fixed every six months (from April 1 and October 1), based on the average wholesale market electricity future prices over agreed two-month calculation periods ending mid-March and mid-September respectively.

The electricity price receivable by the Landfill Gas business for the six months commencing April 1, 2017 was confirmed at £41.64 per MWh following the conclusion of the two month price setting period in mid-March. This reflects an improvement in wholesale electricity prices compared with the corresponding period in 2016 when the price received was £30.02 per MWh.

The table below shows the confirmed prices for the current and comparative periods of both the Landfill Gas Business and the Biomass Business net of the respective discounts included in the PPA's:

| **Biomass Twelve months ended/ending September 30,** | | | **Landfill Gas Six months ended March 31,** | | **Landfill Gas Six months ended / ending September 30,** | | |
|---|---|---|---|---|---|---|---|
| (*In £ per MWh*) | | | (*In £ per MWh*) | | (*In £ per MWh*) | | |
| **2015** | **2016** | **2017** | **2016** | **2017** | **2015** | **2016** | **2017** |
| 44.95 | 39.89 | 38.95 | 42.17 | 43.64 | 40.63 | 30.02 | 41.64 |

### Yorkshire Windpower Limited ("YWP") – Repowering

YWP is a 50% owned subsidiary of Energy Power Resources Limited. YWP owns and operates a small wind-farm at Royd Moor and is in the latter stages of repowering its other wind-farm at Ovenden Moor with a revised project comprising nine 2MW turbines.

The construction phase of the repowered project is practically complete and the wind-farm is fully operational. A claim for extensions of time and associated delay cost raised previously by Gamesa under the turbine supply agreement has been settled following mediation with a small net sum (€264k) payable to YWP. This will be effected by way of deduction from the remaining milestone payments due from Gamesa under the agreement.

During April 2017 Ofgem approved the accreditation of the Ovenden Moor at 0.9 ROCs per MWh under the Renewables Obligation with effect from January 24, 2017.

### Landfill Gas Business

With effect from March 3, 2017 Melton Renewable Energy UK PLC ("MRE UK") ceased generation and operations from the Beighton landfill site. This was a closed landfill site with low and diminishing gas volumes, an installed capacity of 0.2MW and annual generation of around 1GWh and was no longer economically viable. This reduces the number of landfill sites from which we operate to 24.

With effect from March 31, 2017 the landfill site from which we operate at Jameson Road, Lancashire closed to waste inputs. The closure was in line with expectations. Subject to final capping, we do not anticipate any material impact upon on generation in the short term but gas volumes in the medium and longer term will naturally decline.

**Embedded Benefits**

On March 1, 2017 Ofgem published a minded to decision to change electricity transmission charging arrangements for embedded generators such as MRE UK. The proposals, which remain subject to final consultation, will effectively remove approximately 90% of the current triad benefit from embedded generators by 2021. Such revenue amounted to around £5.3m for MRE UK in 2016/17. It is proposed that this change will be phased in equally over three years between 2018/19 and 2020/21. We have responded to Ofgem's consultation and await its final decision.

**Shareholder loan repayment**

On April 5, 2017 MRE UK made a shareholder loan repayment of £18.0m to its parent company Eucalyptus Energy Limited by way of i) a repayment of the £6.5m shareholder loan advanced to MRE UK in June 2016, treated as an excluded contribution; and ii) a restricted payment of £11.5m, permitted under Senior Secured Notes Indenture Section 4.02 (c) (1) as it does not exceed 50% of Consolidated Net Income accumulated as at March 31, 2017which was £19.0m.

## PRESENTATION OF FINANCIAL AND OTHER DATA

**Financial information and operational data**

On January 29, 2015 MRE UK, the Issuer, issued £190m 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 former 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 both the quarter and nine months ended March 31, 2017 together with comparative combined results as of and for both the quarter and nine months ended March 31, 2016 (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 March 31, 2016 and 2017. This presentation of financial information is consistent with that included in our Offering Memorandum. 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 unaudited condensed consolidated interim financial information of MRE UK also presented within this report.

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. In the unaudited condensed consolidated interim financial information 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 FRS 102 in all other respects.

**Non-GAAP Measures**

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 FRS 102 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 FRS 102 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 both the quarter and nine months ended March 31, 2017, together with comparatives.

**Executive Summary**

The group's output for the quarter ended March 31, 2017 was 289.7GWh, a 2% reduction when compared to the quarter ended March 31, 2016.

- Output from the Biomass Business was 206.2GWh in the quarter ended March 31, 2017, a decrease of 4.4GWh (2%) when compared to the corresponding quarter in the previous year, although around half of this reduction reflects the impact of the extra day in February 2016. Output from Ely power station was impacted during February by a failure of the local distribution network which following a short outage necessitated load to be restricted to 24MW for eight consecutive days. Output from Thetford, Eye and Westfield increased between the two quarters whilst Glanford was broadly consistent.

- Output from the Landfill Gas business was 83.5GWh in the quarter ended March 31, 2017, representing a decrease of 2.9GWh (3%) when compared to the corresponding quarter in the previous year (of which around a third reflects the extra day of February 2016). Output from the Landfill Gas portfolio is generally anticipated to decline gradually due to the age and operating profile of the landfill sites from which it operates and the actual rate of decline was in line with expectations.

Despite the reduction in output, the group's turnover increased from £33.9m to £34.1m when comparing the two quarters, primarily due to an increase in Triad revenue receivable. All five biomass power stations and the Landfill Gas sites were exporting at generally good load factors during the three confirmed Triad periods of peak electricity demand between November 2016 and February 2017. This, combined with an increase in the unit value, resulted in Triad revenue of £5.3m compared to £4.6m in the quarter ended March 31, 2016.

The group continued to maintain effective control of its costs during the quarter ended March 31, 2017. Total costs decreased by £0.6m when compared to the corresponding quarter in the previous year however this was primarily the result of a timing difference within administrative expenses due to the change in financial year end. On a like for like basis, total costs were consistent between the two quarters.

As a result of the above, the group's EBITDA for the quarter ended March 31, 2017 was £14.8m, an increase of £0.9m (6%) when compared to the quarter ended March 31, 2016.

***Combined Statement of Income***

| (in thousands of £) | Quarter ended March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| **Group turnover** | **33,882** | **34,106** | **92,058** | **88,846** |
| Cost of sales | (11,793) | (12,138) | (36,080) | (35,469) |
| **Gross profit** | **22,089** | **21,968** | **55,978** | **53,377** |
| Administrative expenses | (12,312) | (11,357) | (40,216) | (38,789) |
| **Group operating profit** | **9,777** | **10,611** | **15,762** | **14,588** |
| Share of operating profit in joint venture | 86 | 306 | 167 | 342 |
| **Total operating profit: group and share of joint venture** | **9,863** | **10,917** | **15,929** | **14,930** |
| Interest receivable and similar income | 12 | 7 | 63 | 23 |
| Interest payable and similar charges | (6,279) | (6,162) | (19,172) | (18,413) |
| **Profit/(loss) on ordinary activities before taxation** | **3,596** | **4,762** | **(3,180)** | **(3,460)** |
| Tax on profit/(loss) on ordinary activities | (2,476) | (1,123) | (371) | 278 |
| **Profit/(loss) for the period** | **1,120** | **3,639** | **(3,551)** | **(3,182)** |

***Combined Net Sales by Business***

| (in thousands of £) | Quarter ended March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| Biomass Business | 25,534 | 25,561 | 68,780 | 66,674 |
| Landfill Gas Business | 8,348 | 8,545 | 23,278 | 22,172 |
| **Total** | **33,882** | **34,106** | **92,058** | **88,846** |

***Consolidated Balance Sheets***

| (in thousands of £) | Audited As at June 30, 2016 | Unaudited As at March 31, 2017 |
|---|---|---|
| Cash at bank and in hand | 21,248 | 28,285 |
| Other current assets | 45,118 | 50,254 |
| Total non-current assets | 264,838 | 245,437 |
| **Total assets** | **331,204** | **323,976** |
| Total non-current liabilities | 304,773 | 313,594 |
| Total current liabilities | 19,366 | 15,677 |
| Total liabilities | 324,139 | 329,271 |
| Total invested capital | 7,065 | (5,295) |
| **Total invested capital and liabilities** | **331,204** | **323,976** |

Presented above is the unaudited consolidated balance sheet of MRE UK as at March 31, 2017, together with the audited consolidated balance sheet as at June 30, 2016.

***Combined Statement of Cash Flows***

| (in thousands of £) | Quarter ended March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| Net cash inflow from operating activities………… | 11,338 | 11,776 | 30,243 | 20,763 |
| Dividends from joint venture…………………………… | 300 | - | 300 | - |
| Returns on investment and servicing of finance. | (6,015) | (5,183) | (12,971) | (10,419) |
| Taxation received/(paid)………………………………….. | - | - | 9 | (707) |
| Capital expenditure and financial investment….. | (300) | (239) | (2,436) | (2,245) |
| Receipts from sales of tangible fixed assets……… | - | - | 1 | - |
| Loans to associated undertakings…………………….. | (688) | - | (5,470) | (355) |
| Net cash outflow from financing……………………… | - | - | (19,000) | - |
| **Increase/(decrease) in cash……………………………** | **4,635** | **6,354** | **(9,324)** | **7,037** |

Net cash inflow from operating activities in the nine months ended March 31, 2016 includes £4.8m of Triad income. In 2017, Triad revenue of £5.5m was received in June 2016, and is therefore not included in the cash flow for the nine months ended March 31, 2017 having been received prior to the start of this reporting period.

In the nine months ended March 31, 2016 net cash outflow from financing reflects the redemption of senior secured notes to the value of £19m on August 12, 2015.

***Staff costs***

| (in thousands of £) | Quarter ended March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| Wages and salaries......................................... | 3,045 | 2,533 | 8,784 | 7,714 |
| Social security costs……………………………………. | 336 | 276 | 933 | 877 |
| Other pension costs…………………………………….. | 94 | 97 | 281 | 290 |
| | **3,475** | **2,906** | **9,998** | **8,881** |

The reduction in staff costs in the quarter ended March 31, 2017 is primarily the result of a timing difference in the recognition of staff bonuses payable following the change in financial year end. In 2016, staff bonus payments were accrued at the financial year end in March, whilst in 2017 these will be accrued in June to reflect the alignment of the bonus scheme to the group’s financial year end date.

The reduction in the nine months ended March 31, 2017 includes the timing difference referred to above and the costs for the nine months ended March 31, 2016 also include one-off acquisition costs in the quarter ended December 31, 2015.

***Employee information***

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

| By activity | Quarter ended March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| Production………............................................ | 199 | 194 | 198 | 196 |
| Administration………..…………………………………. | 60 | 60 | 63 | 60 |
| | **259** | **254** | **261** | **256** |

**Interest payable and similar charges**

| (in thousands of £) | Quarter ended March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| Interest payable to shareholder company…….. | 2,894 | 3,280 | 8,567 | 9,765 |
| Bond interest payable…………………………………. | 2,886 | 2,565 | 9,380 | 7,695 |
| Amortization of debt issue costs……………………. | 246 | 255 | 813 | 768 |
| Facility fees and charges………………………………. | 253 | 62 | 412 | 185 |
| | **6,279** | **6,162** | **19,172** | **18,413** |

**Other Financial Data**

| (in thousands of £) | Quarter ended March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| EBITDA [(1)]…………………………………………………… | 13,936 | 14,834 | 28,060 | 26,465 |
| EBITDA (excluding ROC Recycle payments) [(2)] | 13,936 | 14,834 | 27,693 | 26,465 |
| Net third-party debt [(3)]………………………………. | 141,272 | 120,325 | 141,272 | 120,325 |
| Capital expenditures [(4)]………………………………. | 300 | 239 | 2,436 | 2,245 |

1) Our EBITDA represents profit/(loss) for the period *plus* tax on loss on ordinary activities, interest payable and similar charges, profit on disposal of tangible fixed assets depreciation and amortization. EBITDA is not a measurement of performance under FRS 102 and you should not consider EBITDA as an alternative to (a) operating profit or loss for the period (as determined in accordance with FRS 102) 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 FRS 102.

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 March 31, 2016 | Quarter ended March 31, 2017 | Nine months ended March 31, 2016 | Nine months ended March 31, 2017 |
|---|---|---|---|---|
| Profit/(loss) for the financial period..................... | 1,120 | 3,639 | (3,551) | (3,182) |
| Tax on profit/(loss) on ordinary activities…………. | 2,476 | 1,123 | 371 | (278) |
| Interest payable and similar charges………………….. | 6,279 | 6,162 | 19,172 | 18,413 |
| Interest receivable and similar income……………… | (12) | (7) | (63) | (23) |
| Depreciation and amortization…………………………. | 4,073 | 3,917 | 12,132 | 11,535 |
| Profit on disposal of tangible fixed assets............ | - | - | (1) | - |
| **EBITDA……………………………………………………………..** | **13,936** | **14,834** | **28,060** | **26,465** |

(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 March 31,** | | **Nine months ended March 31,** | |
|---|---|---|---|---|
| | **2016** | **2017** | **2016** | **2017** |
| **(in thousands of £)** | | | | |
| EBITDA........................................................................ | 13,936 | 14,834 | 28,060 | 26,465 |
| ROC Recycle payments……..………………………………….… | - | - | (367) | - |
| **EBITDA (excluding ROC Recycle payments)……………** | **13,936** | **14,834** | **27,693** | **26,465** |

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 unamortized debt issue costs and cash at bank and in hand.

(4) Capital expenditures represent additions to fixed assets.

## Other Performance Data

| | **Quarter ended March 31,** | | **Nine months ended March 31,** | |
|---|---|---|---|---|
| | **2016** | **2017** | **2016** | **2017** |
| **Output GWh ...............................................** | **297.0** | **289.7** | **844.6** | **832.9** |
| Biomass.......................................................... | 210.6 | 206.2 | 583.3 | 576.5 |
| Landfill……………………………………………………… | 86.4 | 83.5 | 261.3 | 256.4 |
| **Availability (%)** (1)**……………………………………….** | **93.4%** | **95.2%** | **91.6%** | **91.9%** |
| Biomass……………………………………………………… | 92.1% | 94.5% | 88.0% | 88.4% |
| Landfill (2)…………………………………………………… | 94.7% | 95.9% | 95.1% | 95.4% |

(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 quarter and nine months ended March 31, 2017 and March 31, 2016 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 at March 31, 2017 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 a portfolio of five biomass fueled power stations based in the United Kingdom, with a total net installed capacity of 111 MW. Through our Landfill Gas Business, we own and operate methane-powered electricity generation assets at 24 landfill sites across the United Kingdom, representing 62 MW of installed capacity. During the quarter ended March 31, 2017, the portfolio generated 290GWh with group turnover of £34.1m and EBITDA of £14.8m.

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, waste wood 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 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 August and September each year. For the quarter ended March 31, 2017 fertilizer sales were 10,635 tonnes with turnover of £0.7m. Additionally, our Biomass Business owns a 50% equity stake in two onshore wind farms in the United Kingdom. The combined installed capacity has increased to 24.5MW following the completion in of the Ovenden Moor re-power project which has increased the capacity of the larger of the two sites to 18MW.

For the quarter ended March 31, 2017, our Biomass Business generated 206GWh of electricity with turnover of £25.6m (including fertilizer sales) and EBITDA of £11.2m.

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 at March 31, 2017 we operated from 24 landfill sites across Great Britain, with a total of 67 gas engines and a total installed capacity of approximately 62 MW. We enter into specific, long-term gas agreements with each landfill site owner or operator which allow us to use the gas produced 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 March 31, 2017, the Landfill Gas Business generated 83GWh with turnover of £8.5m and EBITDA of £3.9m.

**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, Ely and Westfield to British Gas pursuant to a long term power purchase agreement which runs to March 31, 2020 ("the BG Biomass PPA"). We sell the electrical output from all 24 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 SRO/NFFO-contracts, under which we receive an all-inclusive RPI-indexed fixed price for every MWh of electricity generated. The SRO/NFFO-contracts will expire in August 2017 and November 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 British Gas 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. Accordingly, the revenue we receive under our PPAs depends on the wholesale electricity market as well as the UK renewable energy regulatory regime.

Historically, our income through these power purchase agreements included a per MWh revenue stream linked to the UK government's taxation of business consumers of electricity by way of Climate Change Levy ("CCL"), being the price we received for the Levy Exemption Certificates ("LECs") sold by us to British Gas, this tracked the CCL ("LEC Value"). Following the Budget of July 8, 2015 the CCL exemption for renewable generators was discontinued from August 1, 2015. The revenue and EBITDA impact in respect of LEC Value for the MRE UK group in the nine months to March 31, 2016 was £0.4m.

***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.

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 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 March 31, (*In £ per MWh*) | | Landfill Gas Six months ended/ending September 30, (*In £ per MWh*) | | |
|---|---|---|---|---|---|---|---|
| **2015** | **2016** | **2017** | **2016** | **2017** | **2015** | **2016** | **2017** |
| 48.86 | 43.36 | 42.34 | 44.39 | 45.94 | 42.77 | 31.60 | 43.83 |

***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 required 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 British Gas, through our PPAs, 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 to Ofgem, which is then recycled and returned to suppliers 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 (now part of Department of Business, Energy & Industrial Strategy – BEIS), which since 2011/12 has been 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, in respect of the compliance year to the previous March 31, 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 quarter ended March 31, 2017, the entire output of our Biomass Business's power stations and all of our landfill sites was supported by the RO regime. A small proportion of the electricity generated at two of our landfill sites is separately metered and sold pursuant to NFFO and SRO contracts. Our remaining SRO/NFFO contracts will expire in August 2017 and November 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 quarter ended March 31, 2017, the group's electricity revenue comprised sales of £33.2m under the RO regime and £0.2m 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 medium and long-term contracts with a variety of suppliers.

We generally source poultry litter under long-term contracts, with the price linked to the RPI over the duration of the contract period. For the quarter ended March 31, 2017, we sourced poultry litter pursuant to 18 supply contracts.

All of our straw is procured under fixed-term 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 quarter ended March 31, 2017, 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 and transportation costs by sourcing our fuel from suppliers located in close proximity to our power stations.

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 around 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 24 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 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 individual cells within a landfill site are capped (sealed) or uncapped and whether the overall site is 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 24 sites.

Output decreased by 2.9GWh, or 3.4%, from 86.4GWh in the quarter ended March 31, 2016 to 83.5GWh in the quarter ended March 31, 2017 (around a third of this reduction reflects the extra day of February 2016). A reduction in output can be expected due to the fact that 16 of the 24 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. During March 2017, the Landfill Gas Business ceased operations from Beighton landfill site and the Jameson Road landfill site closed to new waste inputs from March 31, 2017.

We have secured access to our 24 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 March 31, 2017, our gas supply arrangements had a remaining average term of 5 years and 8 months. Seven of the 24 gas supply arrangements (representing approximately 11% of output in the nine months to March 31, 2017) are scheduled to expire by March 31, 2020 and will need to be extended.

***Availability of Assets***

*Biomass Business*

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 during the summer months 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 implement this maintenance regime through our trained team of operational and maintenance staff together with long term maintenance and support 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 quarter ended March 31, 2017, Thetford, Eye, Ely, Glanford and Westfield had availabilities (including planned and unplanned outages) ranging between 92% and 97% with an average of 95%. 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 aim to maximize availability, load factor and output over the long-term through effective plant condition monitoring, preventative maintenance, operational risk management and planning within our operational plans.

*Landfill Gas Business*

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 quarter ended March 31, 2017, our gas engine fleet had availability of 95.9%, a marginal improvement compared to that achieved in the corresponding quarter of the previous year.

We optimize the deployment of our engine fleet across our landfill sites where possible by matching engine capacity to gas resource, thereby ensuring 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 have relocated spare engines to sites with greater landfill gas resource and running at full capacity to create spare engine capacity at those sites which we can utilize whenever another engine has a planned or unplanned outage.

*Yorkshire Windpower - 50% Joint Venture*

*Ovenden Moor*

During April 2017 Ofgem approved the accreditation of the 18 MW Ovenden Moor repowered wind-farm (at 0.9 ROCs per MWh) under the Renewables Obligation with effect from 24th January 2017. Output from Ovenden Moor in the quarter ended March 31, 2017 was 7,913MWh.

Energy Power Resources Limited is funding its share of the YWP repower project at Ovenden Moor by way of a shareholder loan in a maximum amount of £12m, 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

*Royd Moor*

During the quarter ended March 31, 2017, wind turbine availability at Royd Moor, was 75.7%, lower than the 82.7% seen in the comparative period of the prior year.

Output from Royd Moor in the quarter ended March 31, 2017 was 2,447 MWh, a decrease of 822 MWh compared with the quarter ended March 31, 2016, a result of comparatively lower wind resource and lower availability. 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 wind farm at Royd Moor (which was commissioned in 1993) will remain in line with the current levels, or slightly decrease through to the end of its operating life and its planning permission which requires decommissioning by December 2018.

***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 financial quarter ending September 30) 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 July to September 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 July to September 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 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 (at least 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 October to December and January to March quarters 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 £25.6m in the quarter ended March 31, 2017 compared to £25.5m in the quarter ended March 31, 2016. Turnover generated in our Biomass Business predominantly consists of revenue from the sale of electricity, ROCs and embedded benefits under our PPAs, accounting for an aggregate of £24.9m for both quarters ended March 31, 2017 and 2016.

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 August and September each year. Revenue in the quarter ended March 31, 2017 was £0.7m compared with £0.6m in the quarter ended March 31, 2016.

Our Landfill Gas Business generated turnover of £8.5m for the quarter ended March 31, 2017 compared to £8.3m in the quarter ended March 31, 2016, representing 25.1% and 24.6% of group turnover in each period respectively. Turnover generated in our Landfill Gas Business consists of revenue from the sale of electricity, ROCs and embedded benefits under the BG Landfill Gas PPA.

**Analysis of Key Operating and Performance Measures**

We use several key operating measures including 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 load factor and 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 March 31, 2016 and 2017:

| | Quarter ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | **2016** | **2017** | **2016** | **2017** |
| **Biomass Business** | | | | |
| Output (in MWh) .................................................... | 210,546 | 206,239 | 583,295 | 576,501 |
| Availability (in %) .................................................... | 92.1% | 94.5% | 88.0% | 88.4% |

| | Quarter ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 |
| Average load factor ............................................... | 88.4% | 87.6% | 81.1% | 80.5% |
| *Thetford*........................................................ | 87.6% | 92.0% | 78.3% | 84.3% |
| *Ely*……………………………………………………………… | 91.7% | 82.5% | 83.5% | 76.8% |
| *Glanford* ....................................................... | 94.6% | 94.6% | 88.1% | 87.5% |
| *Eye*................................................................ | 89.0% | 90.3% | 83.8% | 77.8% |
| *Westfield* ...................................................... | 70.8% | 76.8% | 70.9% | 72.8% |
| Average Revenue per MWh (in £) .......................... | 118.27 | 120.64 | 109.36 | 107.88 |
| ***Landfill Gas Business*** | | | | |
| Output (in MWh) .................................................... | 86,439 | 83,476 | 261,353 | 256,353 |
| Availability (in %) .................................................. | 94.7% | 95.9% | 95.1% | 95.4% |
| Average revenue per MWh (in £) .......................... | 96.57 | 102.27 | 89.03 | 86.45 |

***Biomass Business***

*Quarter ended March 31, 2017 compared to the quarter ended March 31, 2016*

For the quarter ended March 31, 2017, output of our Biomass Business was 206,239 MWh, which represented a reduction of 4,307MWh, or 2.0%, compared to 210,546 MWh for the quarter ended March 31, 2016. Around half of the reduction in output reflects the impact of an extra day's output in February 2016. Whilst availability was higher across the portfolio compared to the corresponding quarter in the previous year, average load factor reduced slightly.

For the quarter ended March 31, 2017 the average availability across the five power stations was 94.5% an increase from 92.1% in the quarter ended March 31, 2016 driven by particularly strong operational performance at Thetford and Westfield during the quarter.

The average load factor of the five power stations was 87.6% during the quarter ended March 31, 2017. The load factors at Thetford, Eye and Westfield increased quarter on quarter whilst Glanford remained consistent. Ely's load factor was impacted by an export restriction of eight days in February 2017 imposed by the network operator following an external network failure. This resulted in a small decrease in the portfolio average load factor when compared the quarter ended March 31, 2016.

For the quarter ended March 31, 2017, average revenue per MWh of our Biomass Business was £120.64, an increase of £2.37, or 2.0%, compared with £118.27 for the quarter ended March 31, 2016, with the small reduction in the wholesale price of electricity received pursuant to the Biomass PPA more than offset by higher Triad revenue.

***Landfill Gas Business***

*Quarter ended March 31, 2017 compared to the quarter ended March 31, 2016*

For the quarter ended March 31, 2017, output from our Landfill Gas Business was 83,476 MWh, a reduction of 2,963 MWh, or 3.4%, compared to 86,439 MWh for the quarter ended March 31, 2016. Around one third of the reduction in output reflects the extra day's output in February 2016. A natural reduction in output can be expected due to the fact that 16 of the 24 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.

In the quarter ended March 31, 2017, average revenue per MWh of our Landfill Gas Business was £102.27, representing an increase of £5.70, or 5.9%, compared to £96.57 for the quarter ended March 31, 2016 due to an increase in the wholesale price of electricity received pursuant to the Biomass PPA and higher Triad revenue.

***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 months ended March 31, 2016 and 2017:

| | **Quarter ended March 31,** | | **Nine months ended March 31,** | |
|---|---|---|---|---|
| | **2016** | **2017** | **2016** | **2017** |
| **(in thousands of £)** | | | | |
| **Biomass Business** | | | | |
| Wholesale market electricity price...................... | 8,462 | 8,121 | 24,449 | 22,823 |
| ROC buyout………………………………………………..…… | 12,434 | 12,538 | 34,457 | 34,860 |
| LEC sales…………………………………………….………… | - | - | 251 | - |
| ROC Recycle…………………………………………………… | - | - | 265 | - |
| Triad income………………………………………………….. | 3,499 | 3,896 | 3,499 | 3,896 |
| Other embedded benefits……………………………… | 506 | 324 | 869 | 615 |
| | **24,901** | **24,879** | **63,790** | **62,194** |
| **Landfill Gas Business** | | | | |
| Wholesale market electricity price...................... | 3,501 | 3,488 | 10,465 | 9,641 |
| NFFO income…………………………………………………. | 143 | 160 | 440 | 439 |
| ROC buyout………………………………………………..…… | 3,286 | 3,184 | 9,984 | 9,804 |
| LEC sales…………………………………………….………… | - | - | 142 | - |
| ROC Recycle…………………………………………………… | - | - | 102 | - |
| Triad income………………………………………………….. | 1,086 | 1,429 | 1,086 | 1,429 |
| Other embedded benefits……………………………….. | 332 | 276 | 1,049 | 850 |
| | **8,348** | **8,537** | **23,268** | **22,163** |

Output from the Biomass Business decreased by 2.0% to 206,239 MWh in the quarter ended March 31, 2017 from 210,546 MWh in the quarter ended March 31, 2016. Despite the reduction in output, turnover from electricity generation in the Biomass Business remained at £24.9m over the two periods. The impact of the reduction in output and a marginally lower wholesale electricity price received under the Biomass PPA from October 1, 2016 was more than offset by higher quarter on quarter Triad revenue.

Output from the Landfill Gas business decreased by 3.4% to 83,476 MWh in the quarter ended March 31, 2017 from 86,439 MWh in the quarter ended March 31, 2016. Despite the reduction in output, turnover from electricity generation in the Landfill Gas Business increased by £0.2m over the two periods to £8.5m. The impact of the reduction in output was offset by a higher wholesale electricity price received under the Biomass PPA from October 1, 2016 and higher quarter on quarter Triad revenue.

*Revenue from Fibrophos fertilizer sales*

August and September represent the main selling season for our Fibrophos fertilizer and we expect approximately 70% of total annual sales to occur during these two months.

Sales volumes in the quarter ended March 31, 2017 were slightly above expectations at 10,636 tonnes, representing an increase of 2,385 tonnes compared to the 8,251 tonnes sold in the quarter ended March 31, 2016. Sales revenues were £0.7m compared to £0.6m in the corresponding quarter to March 31, 2016.

In the nine months to March 31, 2017 sales volumes were 79,287 tonnes, an increase of 9,306 tonnes (13%) when compared to sales volumes of 69,981 tonnes achieved over the same period in the previous year. Despite the increase in volume, sales revenue has decreased by £0.3m from £4.7m to £4.4m due to a reduction in the average selling price per tonne from £66 to £55. The decrease in price is a reflection of lower underlying commodity prices (phosphate and potash) and challenging economic conditions for farmers, with low wheat prices.

*Fuel Costs*

Total fuel costs for our Biomass Business for the quarters and nine months ended March 31, 2016 and 2017 are summarized below:

| | Quarter ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| **(in thousands of £)** | **2016** | **2017** | **2016** | **2017** |
| Fuel costs……………………………………........... | 8,464 | 8,567 | 24,576 | 23,578 |

Fuel costs, consisting of biomass fuel costs (including associated haulage and storage), fossil fuel and sorbent costs, increased by £0.1m in the quarter ended March 31, 2017 when compared to the corresponding quarter in the previous year, primarily reflecting indexation of litter and straw prices.

In the nine months ended March 31, 2017 fuel costs have decreased by £1.0m when compared the corresponding period in the previous year. Following the renegotiation of the MBM supply contracts for Glanford, the delivered price of MBM reduced significantly from January 2016 which has resulted in a decrease of £0.5m in MBM costs when comparing the two periods. The remainder of the reduction in fuel costs reflects the variation in the biomass output profile between the two periods with a lower proportion of output generated at Ely, the station with highest cost biomass fuel (straw) on a per MWh basis.

*Landfill Gas Royalties*

We have secured access to our 24 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 each 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 months ended March 31, 2016 and 2017:

| | Quarter ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | **2016** | **2017** | **2016** | **2017** |
| **(in thousands of £)** | | | | |
| Royalties due to landfill gas site owners and operators......... | 1,724 | 1,849 | 4,773 | 4,568 |
| **(as a percentage of turnover)** | | | | |
| Royalties due to landfill gas site owners and operators......... | 20.7% | 21.6% | 20.5% | 20.6% |

The amount of royalties' payable, and the average portfolio royalty percentage rate, has increased in the quarter ended March 31, 2017 compared to the equivalent period in the previous year, primarily reflecting changes in output by site across the portfolio and the impact of two new royalty agreements signed in April 2016.

In the nine months ended March 31, 2017 the decrease in royalties payable reflects the decrease in revenue from generation. The average portfolio royalty percentage rate has remained broadly consistent over the two periods.

**Results of Operations**

***Comparison of the quarter ended March 31, 2017 and the quarter ended March 31, 2016***

The following table sets forth our results of operations for the quarter ended March 31, 2017 compared to the quarter ended March 31, 2016.

| | For the quarter ended March 31, | | |
|---|---|---|---|
| (in thousands of £) | 2016 | 2017 | Change (%) |
| **Group turnover** | **33,882** | **34,106** | **0.7** |
| Biomass Business | 25,534 | 25,561 | 0.1 |
| Landfill Gas Business | 8,348 | 8,545 | 2.4 |
| Cost of sales | (11,793) | (12,138) | (2.9) |
| **Gross profit** | **22,089** | **21,968** | **(0.5)** |
| Administrative expenses | (12,312) | (11,357) | 7.8 |
| **Group operating profit** | **9,777** | **10,611** | **8.5** |
| Share of operating profit in joint venture | 86 | 306 | 255.8 |
| **Total operating profit: group and share of joint venture** | **9,863** | **10,917** | **10.7** |
| Interest receivable and similar income | 12 | 7 | (41.7) |
| Interest payable and similar charges | (6,279) | (6,162) | 1.9 |
| **Profit on ordinary activities before taxation** | **3,596** | **4,762** | **32.4** |
| Tax on profit on ordinary activities | (2,476) | (1,123) | 54.6 |
| **Profit for the period** | **1,120** | **3,639** | **224.9** |

*Group Turnover*

Group turnover for the quarter ended March 31, 2017 was £34.1m, an increase of £0.2m, or 0.7%, from £33.9m for the quarter ended March 31, 2016.

Turnover in the Biomass Business for the quarter ended March 31, 2017 was £25.6m, in line with the quarter ended March 31, 2016. Whilst output from the Biomass Business decreased by 4.4GWh (2%), turnover remained in line with the quarter ended March 31, 2016 due to an increase in Triad revenue.

Turnover in the Landfill Gas Business for the quarter ended March 31, 2017 was £8.5m, an increase of £0.2m, or 2.4% from £8.3m for the quarter ended March 31, 2016. The increase in the wholesale electricity price received pursuant to the Landfill Gas PPA and an increase in Triad revenue more than offset the impact of a reduction in output of 2.9GWh (3%).

*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 including processing, storage, haulage and commission. For the quarter ended March 31, 2017 cost of sales were £12.1m, an increase of £0.3m when compared to the quarter ended March 31, 2016. This reflects marginal increases in i) biomass fuel prices due to indexation; ii) royalties payable to landfill operators; and iii) engine maintenance costs within the Landfill Gas business.

*Administrative Expenses*

Administrative expenses for the quarter ended March 31, 2017 were £11.4m, a reduction of £1.0m, or 7.8%, from £12.3m for the quarter ended March 31, 2016. Such costs mainly comprise plant maintenance, depreciation, salaries and overheads. Some £0.5m of this reduction reflects a timing difference, previously staff bonuses have been accrued in March, in 2017 (and future years) these will be accrued in June in line with the changed year end. Professional fees and insurance costs have decreased by a combined total of £0.3m when compared to the quarter ended March 31, 2016.

*Interest Payable and Similar Charges*

Interest payable and similar charges for the quarter ended March 31, 2017 were £6.2m, a reduction of £0.1m from the quarter ended March 31, 2016. Interest payable on the senior secured notes decreased by £0.3m to £2.6m reflecting the £19m redemption of notes in June 2016. The comparative period also included £0.2m of one off fees arising on the reassignment on the RCF facility. This reduction was partly offset by a £0.4m increase in shareholder loan interest to £3.3m, reflecting the quarterly capitalization of accrued interest and an additional £6.5m of principal advanced in June 2016.

*Tax on Profit on Ordinary Activities*

Tax on the profit on ordinary activities for the quarter ended March 31, 2017 is estimated to be a charge of £1.1m, compared to a charge of £2.5m for the quarter ended March 31, 2016.

*Profit for the Period*

The profit for the quarter ended March 31, 2017 was £3.6m, compared with a profit of £1.1m for the quarter ended March 31, 2016.

## Results of Operations

***Comparison of the nine months ended March 31, 2017 and the nine months ended March 31, 2016***

The following table sets forth our results of operations for the nine months ended March 31, 2017 compared to the nine months ended March 31, 2016.

| | For the nine months ended March 31, | | |
|---|---|---|---|
| (in thousands of £) | 2016 | 2017 | Change (%) |
| **Group turnover** | **92,058** | **88,846** | **(3.5)** |
| Biomass Business | 68,780 | 66,674 | (3.1) |
| Landfill Gas Business | 23,278 | 22,172 | (4.8) |
| Cost of sales | (36,080) | (35,469) | 1.7 |
| **Gross profit** | **55,978** | **53,377** | **(4.6)** |
| Administrative expenses | (40,216) | (38,789) | 3.5 |
| **Group operating profit** | **15,762** | **14,588** | **(7.4)** |
| Share of operating profit in joint venture | 167 | 342 | 104.8 |
| **Total operating profit: group and share of joint venture** | **15,929** | **14,930** | **(6.3)** |
| Interest receivable and similar income | 63 | 23 | (63.5) |
| Interest payable and similar charges | (19,172) | (18,413) | 4.0 |
| **Loss on ordinary activities before taxation** | **(3,180)** | **(3,460)** | **(8.8)** |
| Tax on loss on ordinary activities | (371) | 278 | 174.9 |
| **Loss for the period** | **(3,551)** | **(3,182)** | **(10.4)** |

*Group Turnover*

Group turnover for the nine months ended March 31, 2017 was £88.8m, a decrease of £3.2m, or 3.5%, from £92.1m for the nine months ended March 31, 2016.

Turnover in the Biomass Business for the nine months ended March 31, 2017 was £66.7m, a decrease of £2.1m (3.1%) from £68.8m for the nine months ended March 31, 2016. Output from the Biomass Business decreased by 6.8GWh in the nine months ended March 31, 2017 compared to the same periods in the previous year, equivalent to a reduction in turnover of £0.7m. The remainder of the reduction in turnover is attributable primarily to lower wholesale electricity prices, zero ROC-Recycle value and the removal of LEC revenue; partly offset by an increase in Triad revenue and the annual indexation of the ROC buy-out value.

Turnover in the Landfill Gas Business for the nine months ended March 31, 2017 was £22.2m, a decrease of £1.1m (4.8%) from £23.3m for the nine months ended March 31, 2016. This decrease is attributable to a combination of lower output and lower revenue per MWh due to a significantly lower wholesale electricity price in the quarter ended September 30, 2016, zero ROC-Recycle value and the removal of LECs.

*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 including processing, storage, haulage and commission. For the nine months ended March 31, 2017 cost of sales were £35.5m, a reduction of £0.6m, or 1.7%, from £36.1m for the nine months ended March 31, 2016.

Fuel costs (biomass fuel, fossil fuel and sorbent) have decreased by £1.0m in the nine months ended March 31, 2017 when compared to the same period in the previous year. This was driven by a reduction in the delivered price of MBM to Glanford (£0.5m) following the renegotiation of supply contracts with effect from January 2016 and the variation in the biomass output profile between the two periods, with a lower proportion of output generated at Ely, the station with highest cost biomass fuel (straw) on a per MWh basis.

These reductions were offset in part by a £0.3m increase in fertilizer processing costs, reflective of the increase in Fibrophos sales volumes when compared to the comparative period.

*Administrative Expenses*

Administrative expenses for the nine months ended March 31, 2017 were £38.8m, a reduction of £1.4m, or 3.5%, from £40.2m for the nine months ended March 31, 2016. Such costs mainly comprise plant maintenance, depreciation, salaries and overheads. The comparative nine month period included 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. A further £0.5m of this reduction reflects a timing difference, previously staff bonuses were accrued in March however in 2017 (and in future years) these will be accrued in June in line with the changed year end.

*Interest Payable and Similar Charges*

Interest payable and similar charges for the nine months ended March 31, 2017 were £18.4m, a reduction of £0.8m from the nine months ended March 31, 2016. The reduction reflects the 3% premium in respect of the early redemption of the £19m senior secured notes made in the comparative period, as well as the ongoing reduction in interest charges arising from the combined £38m senior secured note redemption made in August 2015 and June 2016. These reductions are offset in part by a £1.2m increase in shareholder loan interest, reflecting the quarterly capitalization of accrued interest and an additional £6.5m of principal advanced in June 2016.

*Tax on Loss on Ordinary Activities*

Tax on the loss on ordinary activities for the nine months ended March 31, 2017 is an estimated credit of £0.3m, a reduction of £0.7m from the £0.4m charge on the loss on ordinary activities for the nine months ended March 31, 2016.

*Loss for the Period*

The loss for the nine months ended March 31, 2017 was £3.2m, compared with a loss of £3.6m for the nine months ended March 31, 2016.

# Melton Renewable Energy UK PLC

Condensed Consolidated Interim Financial Information (unaudited)

9 months ended 31 March 2017

**Group statement of income and retained earnings for the 9 months ended 31 March 2017**

| | Note | ***9 months to 31 March 2017*** | *9 months to 31 March 2016* |
|---|---|---|---|
| | *Note* | ***£000s*** | *£000s* |
| ***Group turnover*** | *2* | **88,846** | 92,058 |
| Cost of sales | | **(66,725)** | (66,558) |
| ***Gross profit*** | | **22,121** | 25,500 |
| Administrative expenses | | **(17,478)** | (19,104) |
| ***Operating profit*** | *3* | **4,643** | 6,396 |
| Share of operating profit in joint venture | | **342** | 167 |
| ***Total operating profit: group and share of joint venture*** | | **4,985** | 6,563 |
| Interest receivable and similar income | | **23** | 63 |
| Interest payable and similar charges | *5* | **(18,413)** | (19,172) |
| ***Loss on ordinary activities before taxation*** | | **(13,405)** | (12,546) |
| Tax on loss on ordinary activities | *6* | **1,045** | 408 |
| ***Loss for the financial period*** | *17* | **(12,360)** | (12,138) |
| ***Accumulated losses brought forward*** | | **(43,805)** | (27,441) |
| ***Accumulated losses carried forward*** | *17* | **(56,165)** | (39,579) |

All items dealt with in the statement of income and retained earnings 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.

| **Group statement of comprehensive income for the 9 month period ended 31 March 2017** | *Note* | ***9 months to 31 March 2017 £000s*** | *9 months to 31 March 2016 £000s* |
|---|---|---|---|
| Loss for the financial period excluding the share of profits of joint venture | | **(12,702)** | (12,305) |
| Share of joint venture's operating profit for the period | | **342** | 167 |
| Loss for the financial period attributable to members of the parent company | | **(12,360)** | (12,138) |
| ***Total comprehensive income for the period*** | *17* | **(12,360)** | (12,138) |

## Group Balance sheet
## As at 31 March 2017

| | Note | As at 31 March 2017 £000s | As at 31 March 2016 £000s |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Intangible assets | 7 | **101,560** | 111,716 |
| Tangible assets | 8 | **143,926** | 160,043 |
| Interests in joint venture | 9 | **(49)** | 548 |
| | | **245,437** | 272,307 |
| ***Current assets*** | | | |
| Stocks | 10 | **13,034** | 12,399 |
| Debtors: amounts falling due within one year | 11 | **37,220** | 27,110 |
| Debtors: amounts falling due after more than one year | 11 | **-** | 8,333 |
| Cash at bank and in hand | | **28,285** | 25,133 |
| | | **78,539** | 72,975 |
| ***Creditors: amounts falling due within one year*** | 12 | **(15,677)** | (17,166) |
| ***Net current assets*** | | **62,862** | 55,809 |
| ***Total assets less current liabilities*** | | **308,299** | 328,116 |
| ***Creditors: amounts falling due after more than one year*** | 13 | **(299,699)** | (298,261) |
| ***Provisions for liabilities and charges*** | | | |
| Deferred tax | | **(13,895)** | (18,564) |
| ***Net (liabilities)/assets*** | | **(5,295)** | 11,291 |
| ***Capital and reserves*** | | | |
| Called up share capital | 16 | **50,870** | 50,870 |
| Accumulated losses | 17 | **(56,165)** | (39,579) |
| ***Total shareholders' (deficit)/funds*** | 18 | **(5,295)** | 11,291 |

## Group statement of cash flows
## For the 9 month period ended 31 March 2017

| | Note | *9 months to 31 March 2017 £000s* | *9 months to 31 March 2016 £000s* |
|---|---|---|---|
| ***Net cash inflow from operating activities*** | *19* | **20,763** | 30,243 |
| Taxation (paid)/received | | **(707)** | 9 |
| ***Net cash generated from operating activities*** | | **20,056** | 30,252 |
| ***Cash flow from investing activities*** | | | |
| Payments to acquire tangible assets | | **(2,245)** | (2,436) |
| Proceeds from sale of tangible assets | | **-** | 1 |
| Dividends from joint venture | | **-** | 300 |
| Interest received | | **23** | 63 |
| ***Net cash used in investing activities*** | | **(2,222)** | (2,072) |
| ***Cash flow from financing activities*** | | | |
| Senior secured notes redeemed | | - | (19,000) |
| Loans to associate undertaking | | **(355)** | (5,470) |
| Interest paid | | **(10,442)** | (13,034) |
| ***Net cash used in financing activities*** | | **(10,797)** | (37,504) |
| ***Net increase/(decrease) in cash and cash equivalents*** | *20* | **7,037** | (9,324) |
| Cash and cash equivalents at the beginning of the period | | **21,248** | 34,457 |
| ***Cash and cash equivalents at the end of the period*** | | **28,285** | 25,133 |

**Cash and cash equivalents consists of:**

| | | |
|---|---|---|
| Cash at bank and in hand | **28,285** | 25,133 |

## Notes to the financial information (unaudited)

### 1. Accounting policies

The unaudited condensed consolidated interim financial information is prepared on the going concern basis, under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). 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 interim 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 statement of income and retained earnings from the date of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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 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. In the group financial statements, associates are accounted for using the equity method.

***Foreign currencies***

The unaudited condensed consolidated interim financial information is presented in pound sterling and rounded to thousands. The company's functional and presentation currency is the pound sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and retained earnings account.

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

## 1. Accounting policies (continued)

***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.

***Intangible fixed assets and amortization***

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 capitalized and stated at cost less accumulated amortization 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 Section 27 of FRS 102. The carrying value of goodwill is assessed based on the combined discounted future cash flows of the biomass and landfill gas divisions, considered to be one cash generating unit ("CGU") in accordance with FRS 102 paragraph 27.27, as they were acquired as part of a single transaction.

Impairments arising are recorded in the statement of income and retained earnings.

Amortization is calculated on a straight line basis over 12 ½ years representing the period from the date of acquisition to March 2027, this being the date to which support under the Renewables Obligation is grandfathered for the biomass power stations and the majority of the landfill gas generation sites. This is 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 cost at acquisition less accumulated depreciation. Additions are based on 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 lives from acquisition using the straight line basis. The expected useful 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 20 years |

No depreciation is charged to assets under construction.

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

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

Modifications, which are intended to extend the useful economic life of the existing asset or enhance the asset's operating performance, are capitalized and depreciated on a straight line basis over the remaining useful economic lives of these modifications, commencing when the modifications are brought into use.

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.

***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 stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stock.

Fuel stocks (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 historical cost per tonne of straw. A provision for unusable straw is identified on an individual stack basis and is reviewed monthly. Stocks are 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.

## Notes to the financial information (unaudited)

### 1. Accounting policies (continued)

***Pension costs***

The Melton Renewable Energy UK PLC group operates multiple defined contribution personal pension schemes for certain qualifying employees. Employee contributions of varying amounts together with employer contributions of between 2% and 10% are paid monthly to the scheme providers. These contributions are recognised as an expense in the statement of income and retained earnings when they fall due.

***Leases***

At inception the group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement and whether the lease should be classified as either a finance lease or an operating lease.

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the fair value of the leased asset and depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the statement of income and retained earnings on a straight line basis over the period of the lease.

***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***

The group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

*Financial assets*
Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset’s original effective interest rate. The impairment loss is recognised in the statement of income and retained earnings.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

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

## 1. Accounting policies (continued)

*Financial liabilities*
Basic financial liabilities, including trade and other payables, bank loans and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

*Offsetting*
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

## 2. Segmental analysis

The group is divided into two operating segments, the biomass and landfill gas divisions, as well as a central management and administration function. This reflects the group's management and internal reporting structures which are monitored by the group's Chief Operating Decision Maker ("CODM"). The group uses EBITDA as a key reporting metric representing earnings before interest, taxation, depreciation and amortisation.

The tables on pages 39 and 40 present segmental information for the period ended 31 March 2017 and for the comparative period ended 31 March 2016.

Segmental profit/(loss), assets and liabilities include items directly attributable to each segment as well as those which can be allocated to each segment on a reasonable basis including goodwill and fair value adjustments to fixed assets arising upon acquisition and the amortisation and depreciation thereon.

Unallocated items included in the group's loss on ordinary activities represent interest and similar charges on senior and shareholder debt. Unallocated items included within total liabilities represent long term senior and shareholder debt, current tax creditors and provisions for deferred taxation.

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

## 2. **Segmental analysis** (continued)

***Segmental statement of income analysis***

| **For 9 months ended 31 March 2017** | Biomass | Landfill Gas | Central | Group |
|---|---|---|---|---|
| | *£000s* | *£000s* | *£000s* | *£000s* |
| Turnover | 66,645 | 22,172 | 29 | 88,846 |
| Operating costs | (48,746) | (13,289) | (688) | (62,723) |
| Share of operating profit in joint venture | 342 | - | - | 342 |
| **EBITDA** | **18,241** | **8,883** | **(659)** | **26,465** |
| Fixed asset depreciation | (12,147) | (1,703) | (13) | (13,863) |
| Intangible amortisation and impairments | (3,692) | (3,925) | - | (7,617) |
| **Operating profit/(loss): group and share of joint venture** | **2,402** | **3,255** | **(672)** | **4,985** |
| Unallocated interest charges on borrowings | - | - | - | (18,390) |
| **Profit/(loss) on ordinary activities before taxation** | **2,402** | **3,255** | **(672)** | **(13,405)** |

| **For 9 months ended 31 March 2016** | Biomass | Landfill Gas | Central | Group |
|---|---|---|---|---|
| | *£000s* | *£000s* | *£000s* | *£000s* |
| Turnover | 68,780 | 23,278 | - | 92,058 |
| Operating costs | (49,365) | (13,385) | (1,415) | (64,165) |
| Share of operating profit in joint venture | 167 | - | - | 167 |
| **EBITDA** | **19,582** | **9,893** | **(1,415)** | **28,060** |
| Fixed asset depreciation | (12,120) | (1,760) | - | (13,880) |
| Intangible amortisation and impairments | (3,692) | (3,925) | - | (7,617) |
| **Operating profit/(loss): group and share of joint venture** | **3,770** | **4,208** | **(1,415)** | **6,563** |
| Unallocated interest charges on borrowings | - | - | - | (19,109) |
| **Profit/(loss) on ordinary activities before taxation** | **3,770** | **4,208** | **(1,415)** | **(12,546)** |

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

## 2. **Segmental analysis** (continued)

**Segmental balance sheet analysis**

| **As at 31 March 2017** | Biomass | Landfill Gas | Central | Group |
|---|---|---|---|---|
| | *£000s* | *£000s* | *£000s* | *£000s* |
| Non-current assets | 172,461 | 72,937 | 39 | 245,437 |
| Current assets | 61,691 | 14,967 | 1,881 | 78,539 |
| **Total assets** | **234,152** | **87,904** | **1,920** | **323,976** |
| Creditors: falling due within one year | (9,428) | (3,533) | (140) | (13,101) |
| Unallocated long term debt and accrued interest | - | - | - | (301,409) |
| Unallocated current and deferred taxation | | | | (14,761) |
| **Total liabilities** | **(9,428)** | **(3,533)** | **(140)** | **(329,271)** |
| **Net assets/(liabilities)** | **224,724** | **84,371** | **1,780** | **(5,295)** |

| **As at 31 March 2016** | Biomass | Landfill Gas | Central | Group |
|---|---|---|---|---|
| | *£000s* | *£000s* | *£000s* | *£000s* |
| Non-current assets | 192,260 | 80,013 | 34 | 272,307 |
| Current assets | 54,075 | 17,406 | 1,153 | 72,634 |
| Unallocated current tax asset | - | - | - | 341 |
| **Total assets** | **246,335** | **97,419** | **1,187** | **345,282** |
| Creditors: falling due within one year | (9,825) | (5,054) | (363) | (15,242) |
| Unallocated long term debt and accrued interest | - | - | - | (300,185) |
| Unallocated deferred taxation | - | - | - | (18,564) |
| **Total liabilities** | **(9,825)** | **(5,054)** | **(363)** | **(333,991)** |
| **Net assets** | **236,510** | **92,365** | **824** | **11,291** |

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

## 3. Operating profit

| Operating profit is stated after charging/(crediting) the following: | ***9 months to 31 March 2017 £000s*** | *9 months to 31 March 2016 £000s* |
|---|---|---|
| Depreciation of owned fixed assets | **13,863** | 13,880 |
| Amortisation of goodwill | **7,617** | 7,617 |
| Operating lease rentals | | |
| – land and buildings | **244** | 251 |
| – other | **216** | 189 |
| Inventory recognised as an expense | **29,233** | 29,713 |
| (Write back)/impairment of inventory | **(83)** | (85) |

## 4. Employee information

| | ***9 months to 31 March*** **2017** ***£000s*** | *9 months to 31 March* 2016 *£000s* |
|---|---|---|
| Wages and salaries | **7,714** | 8,784 |
| Social security costs | **877** | 933 |
| Other pension costs | **290** | 281 |
| | **8,881** | 9,998 |

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

| | ***9 months to 31 March 2017*** | *9 months to 31 March 2016* |
|---|---|---|
| Production | **196** | 198 |
| Administration | **60** | 63 |
| | **256** | 261 |

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

## 5. Interest payable and similar charges

| | ***9 months to 31 March 2017 £000s*** | *9 months to 31 March 2016 £000s* |
|---|---|---|
| Interest payable on senior secured notes | **7,695** | 9,380 |
| Amortisation of issue costs of senior secured notes | **768** | 813 |
| Interest payable to immediate parent company | **9,765** | 8,567 |
| Other interest and charges | **185** | 412 |
| | **18,413** | 19,172 |

## 6. Tax on loss on ordinary activities

Income tax expense is recognized 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 March 2017***

| | **Goodwill** ***£000s*** |
|---|---|
| Cost: | |
| At 1 July 2016 and 31 March 2017 | **150,476** |
| Accumulated amortisation and impairment: | |
| On 1 July 2016 | 41,299 |
| Charge for the period | 7,617 |
| **At 31 March 2017** | **48,916** |
| Net book value: | |
| **At 31 March 2017** | **101,560** |
| At 30 June 2016 | 109,177 |

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

## 8. Tangible assets

| | *Freehold land and buildings £000s* | *Power stations £000s* | *Plant and machinery £000s* | *Assets under construction £000s* | *Total £000s* |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| On 1 July 2016 | 4,557 | 156,736 | 26,429 | 172 | 187,894 |
| Additions | - | 1,738 | 239 | 268 | 2,245 |
| Transfers | - | 131 | 41 | (172) | - |
| Disposals | - | - | (17) | - | (17) |
| **At 31 March 2017** | **4,557** | **158,605** | **26,692** | **268** | **190,122** |
| **Accumulated depreciation:** | | | | | |
| On 1 July 2016 | 106 | 27,868 | 4,376 | - | 32,350 |
| Charge for the period | 43 | 12,079 | 1,741 | - | 13,863 |
| Disposals | - | - | (17) | - | (17) |
| **At 31 March 2017** | **149** | **39,947** | **6,100** | **-** | **46,196** |
| **Net book value:** | | | | | |
| **At 31 March 2017** | **4,408** | **118,658** | **20,592** | **268** | **143,926** |
| At 30 June 2016 | 4,451 | 128,868 | 22,053 | 172 | 155,544 |

## 9. Investments

Energy Power Resources Limited, a 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. Yorkshire Windpower Limited is governed and managed through a joint board of directors with decisions in respect of the entity agreed at board level.

| | ***£000s*** |
|---|---|
| At 30 June 2016 (audited) | 117 |
| Share of loss retained by joint venture | (166) |
| **At 31 March 2017** | **(49)** |

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

## 10. Stocks

| | ***As at 31 March 2017 £000s*** | *As at 31 March 2016 £000s* |
|---|---|---|
| Ash stock | **3,016** | 3,101 |
| Fuel, spare parts and consumables | **10,018** | 9,298 |
| | **13,034** | 12,399 |

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

## 11. Debtors

| | ***As at 31 March 2017 £000s*** | *As at 31 March 2016 £000s* |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade debtors | **573** | 719 |
| Amounts owed by associate undertakings | **11,089** | - |
| Corporation tax debtor | **-** | 341 |
| Prepayments and accrued income | **25,501** | 26,050 |
| Other debtors | **57** | - |
| | **37,220** | 27,110 |
| **Amounts falling due after more than one year** | | |
| Amounts owed by associate undertakings | **-** | 8,333 |
| | **-** | 8,333 |

Amounts owed by associate undertakings relate to the groups 50% share of the shareholder loan facility made available to Yorkshire Windpower Limited in relation to the re-powering of Ovenden Moor. The loan has a fixed interest rate of 6.91% and is due for repayment in April 2017.

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

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

| | ***As at 31 March 2017 £000s*** | *As at 31 March 2016 £000s* |
|---|---|---|
| Interest on senior secured notes | **1,710** | 1,924 |
| Trade creditors | **1,078** | 1,722 |
| Corporation tax creditor | **623** | - |
| Consortium and group relief | **243** | - |
| Other creditors | **315** | - |
| Other taxation and social security | **2,666** | 3,476 |
| Accruals and deferred income | **9,042** | 10,044 |
| | **15,677** | 17,166 |

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

| | ***As at 31 March 2017 £000s*** | *As at 31 March 2016 £000s* |
|---|---|---|
| Senior secured notes | **148,609** | 166,405 |
| Shareholder loan | **151,090** | 131,856 |
| | **299,699** | 298,261 |

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%.

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

## 14. Senior secured notes

| | ***As at 31 March 2017 £000s*** | *As at 31 March 2016 £000s* |
|---|---|---|
| Senior secured notes | **148,609** | 166,405 |

On 29 January 2015, Melton Renewable Energy UK PLC issued £190m 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.

Senior secured notes are stated net of unamortized issue costs of £3,391,000 (31 March 2016: £4,595,000). The group and company incurred total issue costs of £5,786,000 in respect of the senior secured notes. These costs together with the interest expense are allocated to the statement of income and retained earnings over the term of the notes. Interest is calculated using the effective interest rate method.

## 15. Shareholder loan

As at 31 March 2017, the company is in receipt of a shareholder loan from its immediate parent company Eucalyptus Energy Limited. The loan was issued on 30 October 2015 with a principal amount of £127,020,903. The loan is subordinated to the senior secured notes, bears interest at 9% and is repayable no earlier than 1 February 2021. A further principal amount of £6,500,000 was advanced to the company under the same terms on 25 June 2016. Unpaid accrued interest is charged to the statement of income and retained earnings and added to the principal balance on a quarterly basis. As at 31 March 2017, the total outstanding balance is £151,090,000 (31 March 2016: £131,856,000).

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

## 16. Called up share capital

| | ***As at 31 March 2017 £000s*** | *As at 31 March 2016 £000s* |
|---|---|---|
| *Authorised* | | |
| 50,870,000 ordinary shares of £1 each | **50,870** | 50,870 |
| *Allotted* | | |
| 50,870,000 ordinary shares of £1 each | **50,870** | 50,870 |

## 17. Accumulated losses

| | *Accumulated losses £000s* |
|---|---|
| At 1 July 2016 | (43,805) |
| Loss for the financial period | (12,360) |
| **At 31 March 2017** | **(56,165)** |

| | *Accumulated losses £000s* |
|---|---|
| At 1 July 2015 | (27,441) |
| Loss for the financial period | (12,138) |
| **At 31 March 2016** | **(39,579)** |

## 18. Reconciliation of movements in shareholders' funds/(deficit)

| | ***Share capital £000s*** | ***Accumulated losses £000s*** | ***Total £000s*** |
|---|---|---|---|
| On 1 July 2016 | 50,870 | (43,805) | 7,065 |
| Loss for the financial period | - | (12,360) | (12,360) |
| **At 31 March 2017** | **50,870** | **(56,165)** | **(5,295)** |

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

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

| | ***9 months ended 31 March 2017*** | *9 months ended 31 March 2016* |
|---|---|---|
| | ***£000s*** | *£000s* |
| Operating profit | **4,643** | 6,396 |
| Depreciation | **13,863** | 13,880 |
| Amortisation of goodwill | **7,617** | 7,617 |
| Decrease in stocks | **150** | 1,112 |
| (Increase)/decrease in debtors | **(4,424)** | 3,358 |
| Decrease in creditors | **(1,086)** | (2,120) |
| **Net cash inflow from operating activities** | **20,763** | 30,243 |

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

*(a) Movement in net debt*

| | ***9 months ended 31 March 2017*** | *9 months ended 31 March 2016* |
|---|---|---|
| | ***£000s*** | *£000s* |
| Increase/(decrease) in cash | **7,037** | (9,324) |
| Senior secured notes redeemed | **-** | 19,000 |
| Non cash movements | **(10,533)** | (9,348) |
| **Movement in net debt** | **(3,496)** | 328 |
| **Opening net debt** | **(267,918)** | (273,456) |
| **Closing net debt** | **(271,414)** | (273,128) |

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

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

*(b) Analysis of changes in net debt*

| | *At 1 July 2016 £000s* | *Cash flow £000s* | *Non-cash movements £000s* | ***At 31 March 2017 £000s*** |
|---|---|---|---|---|
| Cash at bank and in hand | 21,248 | 7,037 | - | **28,285** |
| **Shareholder company loan** | | | | |
| Debt due after more than one year | (141,325) | - | (9,765) | **(151,090)** |
| **Senior secured notes:** | | | | |
| Senior secured notes | (152,000) | - | - | **(152,000)** |
| Debt issue costs paid | 4,159 | - | (768) | **3,391** |
| **Total** | (267,918) | 7,037 | (10,533) | **(271,414)** |

Non cash movements relating to the shareholder loan represent loan interest for the nine months to 31 March 2017 which has been capitalised and included in the principal balance outstanding.

## 21. Related party transactions

As at 31 March 2017 £11,089,000 (31 March 2016: £8,333,000) was due from Yorkshire Windpower Limited ("YWP"), a 50% joint venture investment, in relation to the groups 50% share of the shareholder loan facility made available to YWP in relation to the re-powering of Ovenden Moor. The loan has a fixed interest rate of 6.91% and is due for repayment in April 2017.

During the period the group received, in the normal course of business, from YWP £7,500 (period to 31 March 2016: £81,294) for management and accountancy services. At the period end £7,500 (period end 31 March 2016: £62,352) was outstanding.

## 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 March 2017 amounted to £40,116 (31 March 2016: £31,350).

## 23. Ultimate parent company

Eucalyptus Energy Limited is the immediate parent undertaking and Fern Trading Limited (an English limited company with its registered office at 6th floor, 33 Holborn, London EC1N 2HT) is the ultimate parent undertaking and controlling party.

## 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 March 31, 2017 (the "Combined Results") and the Condensed Consolidated Interim Financial Information for the nine months ended March 31, 2017 (the "Consolidated Results").

| | *Unaudited Combined 9 months ended 31 March 2017 £000s* | *Unaudited Consolidated 9 months ended 31 March 2017 £000s* | *Difference £'000s* |
|---|---|---|---|
| ***Group turnover*** | **88,846** | **88,846** | **-** |
| Cost of sales [1] | (35,469) | (66,725) | (31,256) |
| ***Gross profit*** | **53,377** | **22,121** | **(31,256)** |
| Administrative expenses | (38,789) | (17,478) | 21,311 |
| ***Group operating profit*** [2] | **14,588** | **4,643** | **(9,945)** |
| Share of operating profit in joint venture | 342 | 342 | - |
| ***Total operating profit: group and share of joint venture*** | **14,930** | **4,985** | **(9,945)** |
| Interest receivable and similar income | 23 | 23 | - |
| Interest payable and similar charges | (18,413) | (18,413) | - |
| ***Loss on ordinary activities before taxation*** | **(3,460)** | **(13,405)** | **(9,945)** |

Notes

[1] In the Consolidated Results 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 £31.3m and decreases administrative expenses by the same amount but has no impact on the group's loss or net assets.

[2] The decrease in group operating profit arises due to:

i. an increase in fixed asset depreciation of £6.3m 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 amortization of £3.7m resulting from the amortization of goodwill arising upon acquisition of the group by MRE UK PLC.