Melton Renewable Energy UK PLC

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

Issued by Melton Renewable Energy UK PLC

Annual and Quarterly Report

Financial Results for the quarter and twelve months ended June 30, 2016

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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

### Change of ownership

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

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

In order to align the financial year ends of MRE UK and its subsidiaries with that of its new parent company, Eucalyptus Energy Limited, MRE UK changed its financial year end to June 30. This has given rise to a 15 month accounting period ended June 30, 2016.

The Combined Financial Information within this report includes the actual results for both the quarter and twelve months ended June 30, 2016 with comparative results for the quarter and twelve months ended June 30, 2015. We have not included Combined Financial Information for the 15 months ended June 30, 2016 within this report as this period represents a one-off for which there are no meaningful comparatives. The Audited Consolidated Financial Statements for the 15 month period ended June 30, 2016 are included in the appendix to the report.

### July 2015 Budget – Climate Change Levy ("CCL") Announcement

Following the Budget of July 8, 2015 the CCL exemption for renewable generators was discontinued with effect from August 1, 2015 and Levy Exemption Certificates have not been issued for renewable generation since this date.

In the quarter ended June 30, 2016 discontinuing the CCL exemption scheme has resulted in a reduction in MRE UK's turnover and EBITDA of £1.3m and £1.2m respectively. In the twelve months ended June 30, 2016 discontinuing the CCL exemption scheme has resulted in a reduction in MRE UK's turnover and EBITDA of £4.8m and £4.5m respectively.

### Recycle ROC

The results for the twelve months ended June 30, 2016 include the Recycle ROC value for 2014/15 of £0.35 per ROC. This was below our original expectations, largely as a result of renewable generation and associated ROCs issued (and subsequently presented by electricity suppliers) being very close to the obligation set by the Department of Energy & Climate Change ("DECC"), including an additional 10% headroom.

The Recycle ROC value for 2015/16 (Compliance Period 14) was announced by OFGEM on October 5, 2016 at £nil per ROC. Due to the over-supply of ROCs, the number of ROCs presented represented 99.9% of the total obligation for the compliance period, as calculated based upon DECC's forecast including its 10% headroom, resulting in a nil Recycle ROC value. This represents a disappointing outcome and is below expectations.

### 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 fluctuations or decreases in wholesale electricity prices, whether temporary or permanent, may adversely affect our business, financial condition and results of operations.

Between summer 2015 and February 2016, mainly as a result of a decrease in UK natural gas prices, wholesale electricity market future prices decreased by between 20% and 25%. Subsequently wholesale electricity future market prices have recovered and are currently trading at levels generally above those available in summer 2015.

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 and revenue in the period ended June 30, 2016 was only impacted by the fall in market prices between summer 2015 and February 2016, to the extent it coincided with the price setting periods as defined in the PPA's.

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 (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 table below shows the confirmed prices for the current and comparative periods, net of the respective discounts included in the PPA's:

| **Biomass Twelve months ended/ending September 30, (*In £ per MWh*)** | | | **Landfill Gas Six months ended/ending March 31, (*In £ per MWh*)** | | | **Landfill Gas Six months ended September 30, (*In £ per MWh*)** | | |
|---|---|---|---|---|---|---|---|---|
| **2015** | **2016** | **2017** | **2015** | **2016** | **2017** | **2014** | **2015** | **2016** |
| 44.95 | 39.89 | 38.95 | 47.41 | 42.17 | 43.64 | 44.41 | 40.63 | 30.02 |

**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 process of repowering its wind-farm at Ovenden Moor, the revised project comprises nine 2MW turbines.

The repower project in respect of YWP's site at Ovenden Moor commenced in July 2015 with the decommissioning of the existing wind turbines. The project remained on track through to the end of February 2016 for scheduled commissioning in summer 2016 of the nine 2MW turbines. The agreed and only feasible delivery route to site for the wind turbines included a road spanning a 140-year old Victorian railway bridge. Following a structural survey, YWP was informed that a temporary reinforcement structure was required on leased land underneath the bridge before the transportation of wind turbines across the bridge would be permitted.

Negotiation of the compensation demanded by the leaseholder took several months and was not concluded until the end of June 2016. The propping works were undertaken almost and delivery of the wind turbines commenced on July 23, 2016, at the rate of one per week. All turbines and the main erection crane are now on site.

It is anticipated that all nine turbines will be erected and commissioned before the end of March 2017. We remain confident that the repowered Ovenden Moor will be accredited under the RO regime at the level of 0.9 ROCs per MWh. The capital costs of the repower project remain broadly in line with expectations.

**Fuel Contracts / Gas Agreements**

In September 2016, Bernard Matthews Foods Limited was placed into administration and its assets and trade were sold to the Boparan Private Office. At this time we were in the process of negotiating an extension to the previous Bernard Matthews' turkey litter supply contract.

The Bernard Matthews business continues to trade and supply turkey litter to the Biomass Business on the basis of the proposed contract and we anticipate finalizing the contract with the new owners. The proposed contract represents approximately 6% of the fuel requirements of Thetford and Eye power stations.

In April 2016 gas agreements in respect of the exiting sites at Bellhouse and Cilgwyn were extended for two and eight years respectively. The associated royalty rates were lower than in the previous agreements.

## PRESENTATION OF FINANCIAL AND OTHER DATA

### Financial information and operational data

On January 29, 2015 MRE UK 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 the quarter and twelve months ended June 30, 2016 together with comparative combined results for the quarter and twelve months ended June 30, 2015 (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 twelve months ended June 30, 2015 and 2016. 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.

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 Audited Consolidated Financial Statements of MRE UK the directors have adopted a broader classification of costs of sales to include all plant maintenance, depreciation and operational staff costs in addition to those costs described above. Profit on ordinary activities and EBITDA is not affected by the reclassification of costs from administrative expenses to cost of sales. The Combined Financial Information has been prepared in accordance with FRS 102 in all other respects.

### Audited Consolidated Financial Statements

In order to align the financial year ends of MRE UK and its subsidiaries with that of its new parent company, Eucalyptus Energy Limited, MRE UK changed its financial year end to June 30. This has given rise to a 15 month accounting period ended June 30, 2016.

The Combined Financial Information within this report includes the actual results for both the quarter and twelve months ended June 30, 2016 with comparative results for the quarter and twelve months ended June 30, 2015. We have not included Combined Financial Information for the 15 months ended June 30, 2016 within this report as this period represent a one-off for which there is no meaningful comparative.

In addition to the Combined Financial Information, we have presented the Audited Consolidated Financial Statements of MRE UK as at June 30, 2016, including trading results for the fifteen months ended June 30, 2016. A comparative balance sheet and trading results (for the 215 days to 31 March 2015) are also provided.

**Transition to FRS 102**

This is the first period that MRE UK has prepared its Audited Consolidated Financial Statements under FRS 102. The last Audited Consolidated Financial Statements for the period ended 31 March 2015 were prepared under UK GAAP. The date of transition to FRS 102 was August 29, 2014, this being the date of incorporation of the company. The Combined Financial Information has also been presented in accordance with FRS 102. The most significant impact of the transition is described below.

FRS 102 requires derivative financial instruments to be recognized at fair value. As at the opening balance sheet date of August 29, 2014 the group was party to two interest rate swaps, assessed at fair value to represent a total liability of £10.4m. Under FRS 102 this liability has been recognized in the creditors and reserves of MRE UK at the opening balance sheet date. The swaps were subsequently settled in full on February 5, 2015 (prior to their respective maturity dates) and the crystallized loss incurred which was originally included in the profit and loss account for the period ended March 31, 2015, has been restated under FRS 102 to take account of the earlier recognition of the fair value liability. Specifically, interest payable and similar charges in the profit and loss account for the period ended March 31, 2015 have reduced by £10.4m when compared to that previously reported under UKGAAP.

**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 (i) the quarters ended June 30, 2015 and 2016; and (ii) the twelve months ended June 30, 2015 and 2016.

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

The Combined Financial Information presents the combined results of the continuing operations of Melton Renewable Energy (Holdings) Limited and its consolidated subsidiaries and Melton LG Holding Limited and its consolidated subsidiaries for the quarters and twelve months ended June 30, 2015 and 2016.

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 consolidated report and financial statements of MRE UK also presented within this report.

**Executive Summary**

MRE UK's underlying operational performance remained strong in the quarter ended June 30, 2016 with total generation of 285GWh; marginally below the corresponding quarter from the previous year. Biomass Business output was in line with the corresponding quarter of the previous year at 201GWh, with the Landfill Gas portfolio reporting a small but anticipated reduction in output of 1.2GWh (1%), reflecting the age and operating profile of the landfill sites from which it operates.

In the twelve months to June 30, 2016 total output from the MRE UK portfolio was 1,130GWh, marginally higher than total output in the twelve months ended June 30, 2015, with output from the Biomass Business increasing by 18GWh (2%) due to improvements in both availability and load factor across the three largest biomass power stations, offsetting a reduction of 17GWh (5%) from the Landfill Gas Business.

Despite strong operational performance, the combined financial results for the quarter (and twelve months) ended June 30, 2016 have been adversely impacted by the following factors:

- The electricity price received pursuant to the Biomass PPA was re-set with effect from October 1, 2015 with the updated price reflecting the significant fall in the wholesale market price of electricity over the previous twelve months. In the Biomass Business, the price receivable from October 1, 2015 was approximately £5 per MWh (11%) lower than that received in the twelve months from October 1, 2014. Based on generation in the quarter ended June 30, 2016, the impact of the lower electricity price was a £1.0m reduction in turnover and EBITDA;

- In the Landfill Gas Business, the electricity price received pursuant to the Landfill Gas PPA for the six months commencing April 1, 2016 was approximately £11 per MWh (26%) lower than that received from April 1, 2015. Based on generation in the quarter ended June 30, 2016, the impact of the lower electricity price was a £0.9m reduction in turnover.

- The removal of the CCL exemption for renewable generation from August 1, 2015 adversely impacted turnover in the quarter ended June 30, 2016 by £1.3m when compared to the corresponding quarter in the previous year.

In the twelve months ended June 30, 2016, the adverse impact of lower electricity prices and the removal of the CCL exemption was partly offset by the improvement in output and a £0.7m increase in triad revenue when compared to twelve months ended June 30, 2015.

*Combined Profit and Loss Accounts*

| (in thousands of £) | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| **Group turnover** | **30,684** | **26,986** | **128,747** | **119,044** |
| Cost of sales | (11,170) | (11,104) | (48,705) | (47,185) |
| **Gross profit** | **19,514** | **15,882** | **80,042** | **71,859** |
| Other operating income | - | - | 661 | - |
| Administrative expenses | (11,284) | (11,341) | (50,504) | (51,556) |
| **Group operating profit** | **8,230** | **4,541** | **30,199** | **20,303** |
| Share of operating profit/(loss) in joint venture | 175 | (214) | 659 | (47) |
| **Total operating profit: group and share of joint venture** | **8,405** | **4,327** | **30,858** | **20,256** |
| Interest receivable and similar income | 5 | 21 | 32 | 85 |
| Interest payable and similar charges | (6,263) | (6,915) | (23,587) | (26,087) |
| **Profit/(loss) on ordinary activities before taxation** | **2,147** | **(2,567)** | **7,303** | **(5,746)** |
| Tax on profit/(loss) on ordinary activities | (713) | 545 | (771) | 170 |
| **Profit/(loss)for the period** | **1,434** | **(2,022)** | **6,532** | **(5,576)** |

*Combined Net Sales by Business*

| (in thousands of £) | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| Biomass Business | 23,183 | 20,820 | 94,545 | 89,601 |
| Landfill Gas Business | 7,501 | 6,166 | 34,202 | 29,443 |
| **Total** | **30,684** | **26,986** | **128,747** | **119,044** |

*Consolidated Balance Sheets*

| (in thousands of £) | Unaudited As at June 30, 2015 | Audited As at June 30, 2016 |
|---|---|---|
| Cash at bank and in hand | 34,457 | 21,248 |
| Other current assets | 47,451 | 45,118 |
| Total non-current assets | 291,799 | 264,838 |
| **Total assets** | **373,707** | **331,204** |
| Total non-current liabilities | 312,845 | 304,773 |
| Total current liabilities | 22,508 | 19,366 |
| Total liabilities | 335,353 | 324,139 |
| Total invested capital | 38,354 | 7,065 |
| **Total invested capital and liabilities** | **373,707** | **331,204** |

Following the issue of the Notes on January 29, 2015 and subsequent repayment of the third party bank debt, we have presented the audited consolidated balance sheet of MRE UK as at June 30, 2016, together with the unaudited consolidated balance sheet as at June 30, 2015.

***Combined Statements of Cash Flow***

| (in thousands of £) | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| Net cash inflow from operating activities.......... | 9,778 | 11,522 | 49,315 | 41,767 |
| Dividends from joint venture............................. | - | - | - | 300 |
| Returns on investment and servicing of finance | (54) | (1,131) | (21,835) | (14,101) |
| Taxation ...................................................... ... | - | 156 | (2,254) | 165 |
| Capital expenditure and financial investment | (184) | (215) | (3,286) | (2,651) |
| Receipts from sales of tangible fixed assets..... | - | 1 | - | 2 |
| Loans to associated undertakings..................... | (1,450) | (1,718) | (2,522) | (7,191) |
| Net cash outflow from financing ............... .... | - | (12,500) | (393) | (31,500) |
| **Increase/(decrease) in cash.........................** | **8,090** | **(3,885)** | **19,025** | **(13,209)** |

In the quarter ended June 30, 2016 net cash inflow from operating activities increased when compared to the comparative quarter of the previous year despite a reduction in EBITDA due to the receipt of triad income (£4.6m) prior to quarter end. In the previous year triad income was received in July 2015.

In the quarter ended June 30, 2016 net cash outflow from financing (£12.5m) reflects the redemption of senior secured notes to the value of £19m on June 28, 2016, partially funded by the drawdown of a £6.5m shareholder loan.

***Staff costs***

| (in thousands of £) | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| Wages and salaries......................................... | 2,483 | 2,556 | 10,420 | 11,339 |
| Social security costs........................................ | 269 | 302 | 1,182 | 1,234 |
| Other pension costs......................................... | 92 | 95 | 359 | 376 |
| | **2,844** | **2,953** | **11,961** | **12,949** |

***Employee information***

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

| By activity | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| Production...................................................... | 198 | 199 | 196 | 199 |
| Administration................................................ | 63 | 61 | 62 | 62 |
| | **261** | **260** | **258** | **261** |

**Interest payable and similar charges**

| (in thousands of £) | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| Bank debt interest and charges....................... | - | - | 5,496 | - |
| Interest payable to shareholder company…….. | 2,704 | 2,969 | 12,453 | 11,534 |
| Bond interest payable……………………..………….… | 3,241 | 2,879 | 5,153 | 11,689 |
| Redemption fee…………………………..……………… | - | 570 | - | 1,140 |
| Facility fees and charges……………………………… | 59 | 61 | 42 | 474 |
| Amortization of debt issue costs…………………… | 259 | 436 | 443 | 1,250 |
| | **6,263** | **6,915** | **23,587** | **26,087** |

**Other Financial Data**

| (in thousands of £) | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| EBITDA [(1)]…………………………………………………… | 12,454 | 8,204 | 47,318 | 36,263 |
| EBITDA (excluding ROC Recycle payments) [(2)] | 12,454 | 8,204 | 46,580 | 35,896 |
| Net third-party debt [(3)]………………………………. | 150,165 | 126,592 | 150,165 | 126,592 |
| Capital expenditures [(4)]……………………………… | 184 | 215 | 3,286 | 2,651 |

1) Our EBITDA represents profit for the period *plus* tax on profit on ordinary activities, interest payable and similar charges, loss on disposal of tangible fixed assets depreciation and amortization and write-off of certain assets under construction *less* interest receivable, profit on disposal of tangible fixed assets and similar income. EBITDA is not a measurement of performance under FRS 102 and you should not consider EBITDA as an alternative to (a) operating profit or profit 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 (loss)/profit for the period from continuing operations to EBITDA for the periods indicated:

| (in thousands of £) | Quarter ended June 30 2015 | Quarter ended June 30 2016 | Twelve months ended June 30 2015 | Twelve months ended June 30 2016 |
|---|---|---|---|---|
| Profit/(loss) for the financial period..................... | 1,434 | (2,022) | 6,532 | (5,576) |
| Tax on profit/(loss)on ordinary activities…………… | 713 | (545) | 771 | (170) |
| Interest payable and similar charges………………….. | 6,263 | 6,915 | 23,587 | 26,087 |
| Interest receivable and similar income………………. | (5) | (21) | (32) | (85) |
| Depreciation and amortization………………………….. | 4,049 | 3,877 | 16,362 | 16,007 |
| Loss on disposal of tangible fixed assets... | - | - | 98 | - |
| **EBITDA……………………………………………………………..** | **12,454** | **8,204** | **47,318** | **36,263** |

(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 June 30** | | **Twelve months ended June 30** | |
|---|---|---|---|---|
| | **2015** | **2016** | **2015** | **2016** |
| **(in thousands of £)** | | | | |
| EBITDA......................................................................... | 12,454 | 8,204 | 47,318 | 36,263 |
| ROC Recycle payments……..……………………………………. | - | - | (738) | (367) |
| **EBITDA (excluding ROC Recycle payments)……………** | **12,454** | **8,204** | **46,580** | **35,896** |

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 June 30** | | **Twelve months ended June 30** | |
|---|---|---|---|---|
| | **2015** | **2016** | **2015** | **2016** |
| **Output GWh ................................................** | **287.2** | **285.3** | **1,128.8** | **1,129.9** |
| Biomass.......................................................... | 201.7 | 201.0 | 766.3 | 784.3 |
| Landfill………………………………………………………… | 85.5 | 84.3 | 362.5 | 345.6 |
| **Availability (%) (1)……………………………………….** | **93.0%** | **92.0%** | **91.0%** | **91.7%** |
| Biomass……………………………………………………… | 91.5% | 89.2% | 87.0% | 88.3% |
| Landfill (2)…………………………………………………… | 94.5% | 94.8% | 94.9% | 95.0% |

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

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

## OPERATING AND FINANCIAL REVIEW

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

The following is a discussion of our results of operations in the periods set out below. You should read this discussion together with the sections entitled "Combined Financial Information and Other Data" and the combined financial statements and the related Notes and information included within this quarterly report. The combined financial information in this discussion of our results of operations and financial condition as of and for the quarters and twelve months ended June 30, 2016 and June 30, 2015 have been derived from unaudited combined financial information included elsewhere in this quarterly report.

**Business Overview**

We are an independent generator of renewable energy in the United Kingdom and as of June 30, 2016 our portfolio of electricity generating assets had a total net installed capacity of 174 MW. We have a business which is diversified across multiple technologies, sites, network connection points and renewable fuels.

Through our Biomass Business, we own and operate the largest independent biomass-only fueled power station portfolio in the United Kingdom, consisting of five biomass power stations with a total net installed capacity of 111 MW. Through our Landfill Gas Business, we own and operate methane-powered electricity generation assets at 25 landfill sites across Great Britain, representing 63 MW of installed capacity. For the quarter ended June 30, 2016, the portfolio of assets generated 285GWh with Group turnover of £27.0m and EBITDA of £8.2m.

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

The Biomass Business also sells the residue combustion ashes from its biomass power stations as fertilizer. This element of our business is seasonal with the majority of sales arising during March, August and September each year. Additionally, our Biomass Business owns a 50% equity stake in two onshore wind farms in the United Kingdom, with a current installed capacity of 6MW, with one site being repowered up to 18MW.

For the quarter ended June 30, 2016, our Biomass Business generated 201GWh of electricity with turnover of £20.8m and EBITDA of £5.8m.

Our Landfill Gas Business generates electricity using naturally occurring methane produced by the anaerobic decomposition of waste deposited in landfill sites to power gas engines. As of June 30, 2016, we operated from 25 landfill sites across Great Britain, with a total of 68 gas engines and a total installed capacity of 63 MW. We enter into specific, long-term gas agreements with each landfill site owner or operator which allow us to use the gas produced at the sites in return for payment of a royalty, linked to our turnover for the relevant site. We sell almost all of the electrical output of, and various regulatory incentives attributable to, our Landfill Gas Business pursuant to a long-term power purchase agreement.

For the quarter ended June 30, 2016, the Landfill Gas Business generated 84GWh with turnover of £6.2m and EBITDA of £1.9m.

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

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

Historically, our power purchase agreements included a per MWh revenue stream linked to the UK government's taxation of business consumers of electricity by way of 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 on the MRE UK group in the quarter to June 30, 2016 was £1.3m and £1.2m respectively. The revenue and EBITDA impact in the twelve months to June 30, 2016 was £4.8m and £4.5m respectively.

***Wholesale Energy Prices***

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

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

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

| Biomass Twelve months ended/ending September 30, (*In £ per MWh*) | | | Landfill Gas Six months ended/ending March 31, (*In £ per MWh*) | | | Landfill Gas Six months ended September 30, (*In £ per MWh*) | | |
|---|---|---|---|---|---|---|---|---|
| **2015** | **2016** | **2017** | **2015** | **2016** | **2017** | **2014** | **2015** | **2016** |
| 48.86 | 43.36 | 42.34 | 49.90 | 44.39 | 45.94 | 46.75 | 42.77 | 31.60 |

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

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

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

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

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

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

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

For the twelve months ended June 30, 2016, the entire output of our Biomass Business's power stations and all 25 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 NFFO/SRO contracts will expire in 2017 and 2018, after which all our electricity will be sold pursuant to our PPAs. After the last NFFO/SRO contract terminates, only the RO regime will be relevant for our business. For the twelve months ended June 30, 2016, we generated Group turnover in respect of electricity sales of £112.9m under the RO regime and £0.6m under the NFFO/SRO regime.

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

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

We generally source poultry litter under long-term contracts, with the price fixed and linked to the RPI over the duration of the contract period. For the twelve months ended June 30, 2016, we sourced poultry litter pursuant to 18 supply contracts.

Historically, we have sourced approximately 75% of our straw requirements pursuant to supply contracts, which generally have a duration of four years, with annual price increases linked to the RPI. With effect from summer 2015, we have procured all our straw under fixed-term 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 twelve months ended June 30, 2016, approximately 25% of the fuel we sourced included haulage costs in the fuel price. Historically, when diesel prices have increased, wholesale market electricity prices have usually increased as well, mitigating the increase in separately contracted haulage costs; however, there is no contractual link.

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

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

***Landfill Sites Portfolio Output***

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

Output decreased by 16.9GWh, or 4.7%, from 362.5GWh for the twelve months ended June 30, 2015 to 345.6GWh for the twelve months ended June 30, 2016. A reduction in output can be expected due to the fact that 15 of the 25 sites from which the Landfill Gas Business operates are closed to new waste deposits and gas volumes from these sites will gradually decline over time.

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

As of June 30, 2016, our gas supply arrangements had a remaining average term of 6 years and 4 months, and of the 25 sites from which we extract landfill gas under gas supply arrangements, the arrangements for 8 sites (representing approximately 12% of output in the twelve months to June 30, 2016) will expire by March 31, 2020 and will need to be extended.

***Availability of Assets***

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

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

For the twelve months ended June 30, 2016, Thetford, Eye, Ely, Glanford and Westfield had availabilities (including planned and unplanned outages) ranging between 84% and 93% with an average of 88%. In addition, we measure the performance of our Biomass power stations by load factor, representing the actual output generated by our power stations in a given period as a percentage of the theoretical maximum output of that plant. The theoretical maximum output assumes that the plant runs at its net capacity continuously over such period.

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

Within our Landfill Gas Business, we focus on engine availability, as planned and unplanned engine outages (i.e. an engine being unable to operate) can affect our operations. As we do in our Biomass Business, we mitigate the risk of unplanned engine outages by undertaking plant condition monitoring and preventative maintenance. We aim to follow our engine manufacturers' best practice recommendations and we carry out engine overhauls approximately every 20,000 operating hours. We supplement our maintenance strategy with a stock of strategic spare parts and a trained team of operational staff. For the twelve months ended June 30, 2016, our gas engine fleet had availability of 95.0%, consistent with that achieved in the previous year.

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

YWP's Ovenden Moor site was de-energized on July 21, 2015 ahead of its decommissioning and the start of the repower project (see below). During the twelve months ended June 30, 2016, wind turbine availability at Royd Moor was 81.2%.

Output from YWP in the twelve months ended June 30, 2016 was 10,185 MWh, a reduction of 16,978 MWh compared with the twelve months ended June 30, 2015, reflecting the de-energization of Ovenden Moor from July 21, 2015. As is typical of wind assets, YWP's output is seasonal with generally approximately one third of its output arising in the six months to September 30 and the balance in the second six months to March 31.

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

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. The repower project will replace the original 1993 wind turbines and increase the installed capacity of the site from around 9MW to 18MW. Construction commenced in July 2015 with the decommissioning of existing turbines. All components and the main crane are currently on site and the process of erection is in hand, with completion expected before the end of March 2017.

***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 (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 quarter of each financial year.

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

**Group Organization**

We manage our operations by business units, referred to in this quarterly report as our "businesses," which include our Biomass Business and our Landfill Gas Business. Our Biomass Business generated turnover of £20.8m in the quarter ended June 30, 2016 compared to £23.2m in the quarter ended June 30, 2015. Turnover generated in our Biomass Business predominantly consists of revenue from the sale of electricity, ROCs and embedded benefits to electricity suppliers under our PPAs, accounting for an aggregate of £20.2m and £22.4m for the quarters ended June 30, 2016 and 2015, respectively.

Turnover generated in our Biomass Business also includes turnover from the sale of Fibrophos fertilizer, this element of our business is seasonal with the majority of sales arising during March, August and September each year. Revenue in the quarter ended June 30, 2016 was £0.6m compared to £0.7m in the quarter ended June 30, 2015.

Our Landfill Gas Business generated turnover of £6.2m for the quarter ended June 30, 2016 compared with £7.5m for the quarter ended June 30, 2015, representing 22.8% and 25.3% of group turnover in each period respectively. Turnover generated in our Landfill Gas Business predominantly consists of revenue from the sale of electricity, ROCs and embedded benefits to electricity suppliers under our PPAs.

**Analysis of Key Operating and Performance Measures**

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

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

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

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

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

The following table sets forth certain key operating measures for the Group for the quarter and twelve month periods ended June 30, 2015 and 2016:

| | **Quarter ended June 30** | | **Twelve months ended June 30** | |
|---|---|---|---|---|
| | **2015** | **2016** | **2015** | **2016** |
| **Biomass Business** | | | | |
| Output (in MWh) ................................................... | 201,742 | 200,995 | 766,300 | 784,342 |
| Availability (in %) ................................................... | 91.5% | 89.2% | 87.0% | 88.3% |
| Average load factor ............................................... | 84.7% | 84.4% | 80.3% | 81.9% |
| *Thetford*........................................................ | 87.4% | 87.6% | 79.1% | 80.6% |
| *Ely*……………………………………………………………… | 81.2% | 85.6% | 81.6% | 84.0% |
| *Glanford* ........................................................ | 88.9% | 90.4% | 85.8% | 88.7% |
| *Eye*................................................................ | 89.7% | 80.8% | 83.1% | 83.0% |
| *Westfield* ....................................................... | 74.6% | 64.3% | 69.4% | 69.2% |
| Average Revenue per MWh (in £) ......................... | 111.01 | 100.74 | 115.52 | 107.14 |

| | Quarter ended June 30 | | Twelve months ended June 30 | |
|---|---|---|---|---|
| | 2015 | 2016 | 2015 | 2016 |
| **Landfill Gas Business** | | | | |
| Output (in MWh) ................................................... | 85,487 | 84,274 | 362,498 | 345,627 |
| Availability (in %) ................................................... | 94.5% | 94.8% | 94.9% | 95.0% |
| Average revenue per MWh (in £) .......................... | 87.72 | 73.06 | 94.27 | 85.14 |

***Biomass Business***

*Quarter Ended June 30, 2016 compared to the Quarter Ended June 30, 2015*

For the quarter ended June 30, 2016, output of our Biomass Business was 200,995 MWh, which represented a decrease of 747 MWh, or 0.3%, compared to 201,742 MWh for the quarter ended June 30, 2015. Both availability and average load factor were lower across the portfolio compared to the corresponding quarter in the previous year.

For the quarter ended June 30, 2016, the average availability across our five power stations was 89.2%, a reduction from the 91.5% in the quarter ended June 30, 2015. During the quarter ended June 30, 2016, there has been the usual cycle of short maintenance and cleaning outages at the biomass assets, but no unplanned outages of any significant length or worthy of note.

For the quarter ended June 30, 2016, the average load factor of our five power stations was 84.4%, which represented a marginal reduction from the 84.7% for the quarter ended June 30, 2015. Improvements in load factors across the three largest biomass stations were offset by reductions at Eye and Westfield. Load factor at Eye reduced by 8.9 percentage points between the two quarters reflecting the impact of combustion trials utilizing waste wood-chip fuel, these proved more problematic than expected. The fuel trial at Eye was concluded at the beginning of August. A bed failure, an imbalance issue with the ID fan and the timing of planned cleaning outages at Westfield gave rise to a 10.3 percentage point reduction between the quarters ended June 30, 2016 and June 30, 2015.

For the quarter ended June 30, 2016, average revenue per MWh of our Biomass Business was £100.74, a reduction of £10.27, or 9.3%, compared with £111.01 for the quarter ended June 30, 2015. This reduction reflects the removal of LECs from August 1, 2015 and the lower electricity price receivable pursuant to the BG Biomass PPA which reduced from £44.95 to £39.89 per MWh, driven by lower wholesale market electricity prices during the relevant PPA calculation periods.

*Twelve months Ended June 30, 2016 Compared to the Twelve Months Ended June 30, 2015*

The output of our Biomass Business was 784,342 MWh in the twelve months ended June 30, 2016, representing an increase of 18,042 MWh, or 2.4%, compared to 766,300 MWh for the twelve months ended June 30, 2015. This increase was driven by a combination of improved availability and load factor across the portfolio.

For the twelve months ended June 30, 2016, the average availability across our five power stations was 88.3%, an increase of 1.3 percentage points from 87.0% for the twelve months ended June 30, 2015. This increase reflected improved availability at all five power stations driven by the group's preventative maintenance regime. The improvement at Ely and Glanford was particularly marked, reflecting operational improvements and the success of annual maintenance outages during 2015.

For the twelve months ended June 30, 2016, the average load factor of our five power stations was 81.9%, which represented an increase of 1.6 percentage points from 80.3% for the twelve months ended June 30, 2015.

In the twelve months ended June 30, 2016, average revenue per MWh of our Biomass Business was £107.14 representing a decrease of £8.38, or 7.3%, compared with £115.52 for the twelve months ended June 30, 2015. This decrease reflects the removal of LECs from August 1, 2015, lower electricity prices and a lower Recycle ROC value slightly offset by the annual indexation of the ROC buy-out price and increased triad revenues in the twelve months to June 30, 2016.

***Landfill Gas Business***

*Quarter Ended June 30, 2016 compared to the Quarter Ended June 30, 2015*

For the quarter ended June 30, 2016, output from our Landfill Gas Business was 84,274 MWh, a decrease of 1,213 MWh, or 1.4%, compared to 85,487 MWh for the quarter ended June 30, 2015. A reduction in output is generally anticipated due to the fact that 15 of the 25 sites from which the Landfill Gas Business operates are closed to new waste deposits and gas volumes from these sites will decrease over time. The impact of this natural decline in gas and output was partly offset in the quarter by improvements in output, particularly at Garlaff, following access to the latest completed cells and the installation of new gas collection infrastructure.

In the quarter ended June 30, 2016, average revenue per MWh of our Landfill Gas Business was £73.06, representing a decrease of £14.66, or 16.7%, compared to £87.72 for the quarter ended June 30, 2015. This reduction primarily reflects the lower electricity price receivable pursuant to the BG Landfill Gas PPA which reduced from £40.63 to £30.02 per MWh driven by lower wholesale market electricity prices during the relevant PPA calculation periods and the removal of LECs from August 1, 2015.

*Twelve Months Ended June 30, 2016 Compared to the Twelve Months Ended June 30, 2015*

For the twelve months ended June 30, 2016 output from our Landfill Gas Business was 345,627 MWh, which represented a decrease of 16,871 MWh, or 4.7%, compared to 362,498 MWh for the twelve months ended June 30, 2015. This decrease was the result of a reduction in output arising from the closed sites within the portfolio and restricted access to gas at two key sites during the year due to capping and site re-profiling works.

Average revenue per MWh of our Landfill Gas Business for the twelve months ended June 30, 2016 was £85.14, this represented a reduction of £9.13, or 9.7%, compared to £94.27 for the twelve months ended June 30, 2015. This decrease reflects the removal of LECs from August 1, 2015, lower electricity prices over the latter twelve month period and a lower Recycle ROC value slightly offset by the annual indexation of the ROC buy-out price.

***Discussion of Financial Results***

*Revenue from generation*

The following table provides a breakdown of turnover from electricity generation of our Biomass Business and our Landfill Gas Business for the quarters and twelve month periods ended June 30, 2015 and 2016:

| | **Quarter ended June 30** | | **Twelve months ended June 30** | |
|---|---|---|---|---|
| | **2015** | **2016** | **2015** | **2016** |
| **(in thousands of £)** | | | | |
| **Biomass Business** | | | | |
| Wholesale market electricity price...................... | 9,350 | 8,086 | 35,948 | 32,535 |
| ROC buyout.............................................................. | 12,141 | 12,166 | 45,064 | 46,623 |
| LEC sales.................................................................. | 900 | - | 3,370 | 251 |
| ROC Recycle............................................................ | - | - | 530 | 265 |
| Embedded benefits................................................ | 4 | (4) | 3,608 | 4,362 |
| | **22,395** | **20,248** | **88,520** | **84,036** |
| **Landfill Gas Business** | | | | |
| Wholesale market electricity price...................... | 3,487 | 2,575 | 16,313 | 13,480 |
| ROC buyout.............................................................. | 3,274 | 3,266 | 13,602 | 13,250 |
| LEC sales.................................................................. | 410 | - | 1,715 | 142 |
| ROC Recycle............................................................ | - | - | 208 | 102 |
| Embedded benefits................................................ | 328 | 316 | 2,332 | 2,451 |
| | **7,499** | **6,157** | **34,170** | **29,425** |

Biomass Business turnover from electricity generation decreased in the quarter ended June 30, 2016 compared to the same period in the prior year by £2.1m (9.6%). The decrease reflects the removal of LECs, lower electricity prices received in the current period and a marginal reduction in output.

Output decreased by 0.3% in the quarter ended June 30, 2016 compared with the quarter ended June 30, 2015 from 201,742 MWh to 200,995 MWh.

Landfill Gas Business turnover from electricity generation decreased from £7.5m in the quarter ended June 30, 2015 to £6.2m in the quarter ended June 30, 2016. Again, this reduction reflects the removal of LECs from August 1, 2015, lower electricity prices and a small reduction in output.

Output decreased by 1.4% in the quarter ended June 30, 2016 compared with the quarter ended June 30, 2015 from 85,487 MWh to 84,274 MWh.

*Revenue from Fibrophos fertilizer sales*

Sales volumes in the quarter ended June 30, 2016 were 7,724 tonnes, a reduction of 412 tonnes compared to the quarter ended June 30, 2015. Sales revenue was £0.6m for the quarter ended June 30, 2016, a reduction of £0.1m compared to the quarter ended June 30, 2015 reflecting the impact of lower commodity prices on the Fibrophos selling price.

For the twelve months ended June 30, 2016 sales volumes were 77,705 tonnes, an increase of 10,339 tonnes or 15.3% compared with the twelve months ended June 30, 2015. This increase was achieved despite a challenging summer in terms of weather, with a couple of weeks of heavy rain and wet weather at the end of August and in the middle of September which hampered sales efforts at key times.

Sales revenue was £5.3m in the twelve months ended June 30, 2016, in line with the previous year. The average unit selling price reduced year on year from £78 per tonne to £68 per tonne, reflecting lower underlying commodity prices (phosphate and potash) and challenging economic conditions for farmers, with low wheat prices.

*Fuel Costs*

The following table provides an overview of our total fuel costs for our Biomass Business for the quarters and twelve months ended June 30, 2015 and 2016 are summarized below:

| | **Quarter ended June 30** | | **Twelve months ended June 30** | |
|---|---|---|---|---|
| **(in thousands of £)** | **2015** | **2016** | **2015** | **2016** |
| Fuel costs……………………………................... | 8,298 | 8,195 | 33,707 | 32,770 |

Fuel costs consist of biomass fuel costs (including associated haulage and storage), fossil fuel and sorbent costs. Fuel costs in the quarter ended June 30, 2016 decreased by £0.1m when compared to the quarter ended June 30, attributable primarily to a reduction in the delivered price of MBM to Glanford Power Station.

Despite the increase in output in the twelve months ended June 30, 2016, fuel costs decreased by £0.9m or 2.8% from £33.7m in the twelve months ended June 30, 2015 to £32.8m.

The majority of this reduction arose at Ely, where the delivered straw costs were lower in the twelve months ended June 30, 2016 compared to the previous year, with savings derived from the switch to 100% contract straw with associated reductions in storage, haulage and wastage costs. Savings also arose at Glanford where following the renegotiation of the MBM supply contracts, the delivered price of MBM decreased to an average price of £22 per tonne from January 2016 onwards compared to £32 per tonne in the previous year. Further, there was a reduction in the fossil fuel usage and associated costs at Westfield Power Station in the twelve months ended June 30, 2016 compared to the previous year, due to improved combustion driven by a better biomass fuel mix since the winter of 2014.

*Landfill Gas Royalties*

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

The following table provides an overview of our royalty amounts due to landfill owners and operators for the quarters and twelve month periods ended June 30, 2015 and 2016:

| | **Quarter ended June 30** | | **Twelve months ended June 30** | |
|---|---|---|---|---|
| | **2015** | **2016** | **2015** | **2016** |
| **(in thousands of £)** | | | | |
| Royalties due to landfill gas site owners and operators......... | 1,549 | 1,287 | 6,645 | 6,060 |
| **(as a percentage of turnover)** | | | | |
| Royalties due to landfill gas site owners and operators......... | 20.7% | 20.9% | 19.6% | 20.6% |

The amount of royalties' payable has reduced in both the quarter and the twelve month periods compared to the equivalent periods in the previous year reflecting the reduction in revenues however the average portfolio royalty percentage rate has increased marginally in the quarter and by 1.0 percentage point year on year. The year on year increase is due to: (i) the full year effect of one gas agreement which was extended in September 2014 for 20 years to September 2034 but at a higher royalty; and (ii) a previously negotiated gas agreement extension included a higher royalty from January 2015.

## Results of Operations

***Comparison of the Quarter Ended June 30, 2016 and the Quarter Ended June 30, 2015***

The following table sets forth our results of operations for the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015.

| | For the quarter ended June 30, | | |
|---|---|---|---|
| (in thousands of £) | **2015** | **2016** | **Change (%)** |
| **Group turnover** | **30,684** | **26,986** | **(12.1)** |
| Biomass Business | 23,183 | 20,820 | (10.2) |
| Landfill Gas Business | 7,501 | 6,166 | (17.8) |
| Cost of sales | (11,170) | (11,104) | (0.6) |
| **Gross profit** | **19,514** | **15,882** | **(18.6)** |
| Administrative expenses | (11,284) | (11,341) | 0.5 |
| **Group operating profit** | **8,230** | **4,541** | **(44.8)** |
| Share of operating profit/(loss) in joint venture | 175 | (214) | (222.3) |
| **Total operating profit: group and share of joint venture** | **8,405** | **4,327** | **(48.5)** |
| Interest receivable and similar income | 5 | 21 | 320.0 |
| Interest payable and similar charges | (6,263) | (6,915) | (10.4) |
| **Profit/(loss) on ordinary activities before taxation** | **2,147** | **(2,567)** | **(216.6)** |
| Tax on profit/(loss) on ordinary activities | (713) | 545 | 176.4 |
| **Profit/(loss) for the period** | **1,434** | **(2,022)** | **(241.0)** |

*Group Turnover*

Group turnover for the quarter ended June 30, 2016 was £27.0m, a decrease of £3.7m, or 12.1%, from £30.7m for the quarter ended June 30, 2015. Along with a marginal reduction in output from the Biomass Business, unit revenue reduced when comparing the quarter ended June 30, 2016 to the quarter ended June 30, 2015 reflecting the removal of LECs from August 1, 2015 and lower wholesale electricity prices. These were partly offset by the annual indexation of the ROC buy-out value. Output from the Landfill Gas Business fell by 1.4% comparing the quarter ended June 30, 2016 to the quarter ended June 30, 2015 but the predominant reason for the reduction in turnover was a reduction in revenue per MWh, impacted by the same external factors as the Biomass Business.

Biomass Business

Turnover in our Biomass Business for the quarter ended June 30, 2016 was £20.8m, a decrease of £2.4m, or 10.2% from £23.2m for the quarter ended June 30, 2015. This decrease was attributable to a marginal reduction in output, a reduction in revenue per MWh due to the removal of LECs and lower wholesale electricity prices partly offset by the annual indexation of the ROC buy-out value.

Landfill Gas Business

Turnover in our Landfill Gas Business for the quarter ended June 30, 2016 was £6.2m, a decrease of £1.3m, or 17.8% from £7.5m for the quarter ended June 30, 2015. This decrease was attributable partially to a 1.4% reduction in output but predominantly arising from lower revenue per MWh due to the removal of LECs and lower wholesale electricity prices.

*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 June 30, 2016 cost of sales were £11.1m, a reduction of £0.1m, or 0.6%, from £11.2m for the quarter ended June 30, 2015.

Fuel costs (biomass fuel, fossil fuel and sorbent) decreased by £0.1m in the quarter ended June 30, 2016 when compared to the same quarter in the previous year. This was primarily a result of the reduction in the delivered price of MBM to Glanford following the renegotiation of supply contracts with effect from January 2016. In addition, landfill gas cost of sales decreased by £0.1m with lower royalty costs partly offset by an increase in the number of scheduled engine maintenance overhauls.

*Administrative Expenses*

Administrative expenses for the quarter ended June 30, 2016 were £11.3m in line with the quarter ended June 30, 2015. Such costs mainly comprise plant maintenance costs, depreciation, salaries and overheads.

*Share of Operating Profit/(loss) in Joint Venture*

Share of operating profit/(loss) in joint venture for the quarter ended June 30, 2016 was a loss of £0.2m compared to a £0.2m profit in the comparative period, the movement reflective of the decommissioning of the Ovenden Moor wind farm on July 31, 2015.

*Interest Payable and Similar Charges*

Interest payable and similar charges for the quarter ended June 30, 2016 were £6.9m, an increase of £0.7m from the quarter ended June 30, 2015. The increase reflects the 3% redemption cost of the £19m senior secured notes redemption made on June 28, 2016 (£0.6m) as well as an increase in shareholder interest (£0.2m) reflective of quarterly interest payments rolled up into principal in the 12 months to June 30, 2016. These quarter on quarter variances are offset in part by a reduction in interest on the £152m senior secured notes following the initial £19m redemption made in August 2015.

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

Tax on the loss on ordinary activities for the quarter ended June 30, 2016 represented a credit of £0.5m, a reduction of £1.2m from the £0.7m charge on the profit for the quarter ended June 30, 2015 primarily reflecting the difference between the profit/(loss) before tax in the two periods.

*Profit/(loss) for the Period*

The loss for the quarter ended June 30, 2016 was £2.0m, compared with a profit of £1.4m for the quarter ended June 30, 2015.

**Results of Operations**

***Comparison of the Twelve months Ended June 30, 2016 and the Twelve months Ended June 30, 2015***

The following table summarizes our results of operations for the twelve months ended June 30, 2016 compared to the twelve months ended June 30, 2015.

| | For the twelve months ended June 30, | | |
|---|---|---|---|
| (in thousands of £) | 2015 | 2016 | Change (%) |
| **Group turnover** | **128,747** | **119,044** | **(7.5)** |
| Biomass Business | 94,545 | 89,601 | (5.2) |
| Landfill Gas Business | 34,202 | 29,443 | (13.9) |
| Cost of sales | (48,705) | (47,185) | 3.1 |
| **Gross profit** | **80,042** | **71,859** | **(10.2)** |
| Other operating income | 661 | - | (100.0) |
| Administrative expenses | (50,504) | (51,556) | (2.1) |
| **Group operating profit** | **30,199** | **20,303** | **(32.8)** |
| Share of operating profit/(loss) in joint venture | 659 | (47) | (107.1) |
| **Total operating profit: group and share of joint venture** | **30,858** | **20,256** | **(34.4)** |
| Interest receivable and similar income | 32 | 85 | 165.6 |
| Interest payable and similar charges | (23,587) | (26,087) | (10.6) |
| **Profit/(loss) on ordinary activities before taxation** | **7,303** | **(5,746)** | **(178.7)** |
| Tax on loss on ordinary activities | (771) | 170 | 122.1 |
| **Profit/(loss) for the period** | **6,532** | **(5,576)** | **(185.4)** |

*Group Turnover*

Group turnover for the twelve months ended June 30, 2016 was £119.0m, a decrease of £9.7m, or 7.5%, from £128.7m for the twelve months ended June 30, 2015. Whilst output from the Biomass Business increased, revenue per MWh was lower when comparing the two periods reflecting the removal of LECs from August 1, 2015, lower wholesale electricity prices and a lower ROC Recycle value offset slightly by the annual indexation of ROC Buy-out price and higher triad revenue. Output from the Landfill Gas Business fell by 5% comparing the twelve months ended June 30, 2016 to the twelve months ended June 30, 2015 and in addition its revenue per MWh was impacted by the same external factors as the Biomass Business.

Biomass Business

Turnover in our Biomass Business for the twelve months ended June 30, 2016 was £89.6m, a reduction of £4.9m, or 5.2% from £94.5m for the twelve months ended June 30, 2015. Output from the Biomass Business increased by 18GWh (2%) partly offsetting the impact of the removal of LECs, lower wholesale electricity prices and a lower ROC Recycle value which resulted in a reduction in electricity revenue per MWh from £116 to £107. Triad revenue was £0.5m higher in the Biomass Business in the twelve months to June 30, 2016.

Landfill Gas Business

Turnover in our Landfill Gas Business for the twelve months ended June 30, 2016 was £29.4m, a decrease of £4.8m, or 13.9% from £34.2m for the twelve months ended June 30, 2015. This decrease was attributable to a reduction in output of 17GWh (5%) and a reduction in electricity revenue per MWh from £94 to £85 due to the removal of LECs, lower wholesale electricity prices and a lower ROC Recycle value.

*Cost of Sales*

Cost of sales includes biomass fuel, fossil fuel and sorbent costs, landfill gas royalties, engine maintenance costs and the cost of Fibrophos sales including processing, storage, haulage and commission. For the twelve months ended June 30, 2016 cost of sales were £47.2m, a decrease of £1.5m, or 3.1%, from £48.7m for the twelve months ended June 30, 2015.

Despite the increase in output from the Biomass Business, fuel costs (biomass fuel, fossil fuel and sorbent) decreased by £0.9m to £32.8m in the twelve months ended June 30, 2016 compared to the previous year. The majority of this reduction arose at Ely, where the delivered straw costs were lower in the twelve months ended June 30, 2016 compared to the previous year, with savings derived from the switch to 100% contract straw with reductions in storage, haulage and wastage costs. Savings also arose at Glanford where following the renegotiation of the MBM supply contracts, the delivered price of MBM decreased to an average price of £22 per tonne from January 2016 onwards compared to £32 per tonne in the previous year. Further, there was a reduction in the fossil fuel usage and associated costs at Westfield Power Station in the twelve months ended June 30, 2016 compared to the previous year, due to improved combustion driven by a better biomass fuel mix since the winter of 2014.

Landfill gas royalties decreased in the twelve months ended June 30, 2016 compared to the equivalent period in the previous year resulting in a reduction in cost of sales in the Landfill Gas Business of £0.6m.

*Administrative Expenses*

Administrative expenses mainly comprise plant maintenance costs, depreciation, salaries and overheads. For the twelve months ended June 30, 2016 administrative expenses were £51.6m, an increase of £1.1m, or 2.1%, from £50.5m for the twelve months ended June 30, 2015. This increase includes one-off costs totaling £0.7m relating to (i) bonuses payable following the sale of MRE UK to Eucalyptus Energy Limited; and (ii) restructuring costs associated with the closure of Energy Power Resources Limited's small administration office in Paris.

*Share of Operating Profit/(loss) in Joint Venture*

Share of operating profit/(loss) in joint venture for the twelve months ended June 30, 2016 was a small loss (£47,000) compared to a £0.7m profit in the comparative period, reflecting the decommissioning of the Ovenden Moor wind farm from July 2015. A dividend of £0.3m was received from YWP in March 2016.

*Interest Payable and Similar Charges*

Interest payable and similar charges for the twelve months ended June 30, 2016 were £26.1m, an increase of £2.5m, or 11%, from £23.6m for the twelve months ended June 30, 2015.

Interest charges for the twelve months ended June 30, 2016 include interest of £11.7m on the £152m senior secured notes with an interest rate of 6.75%. Interest and charges for the twelve months ended June 30, 2015 include £5.5m in respect of third party debt which was repaid as part of the senior secured notes refinancing on February 5, 2015 and interest on the senior secured notes from issue date to June 30, 2015.

On August 14, 2015 MRE UK redeemed £19m of the £190m senior secured notes issued in February 2015 at a redemption price of 103% of the principal amount plus accrued and unpaid interest up to the redemption date. MRE UK redeemed a further £19m of outstanding notes on June 28, 2016 on identical terms.

Interest charges of £11.5m were incurred in the twelve months ended June 30, 2016 on the shareholder loan put in place as part of the acquisition of both the Biomass Business and the Landfill Gas Business by MRE UK on September 26, 2015. The shareholder loan was effectively transferred to Eucalyptus Energy Limited on October 30, 2015, as part of its acquisition of MRE UK. Shareholder loan interest payable in the twelve months ended June 30, 2015 was £12.5m.

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

Tax on loss on ordinary activities for the twelve months ended June 30, 2016 represented a credit of £0.2m, a reduction of £1.0m from the £0.8m charge on the profit for the twelve months ended June 30, 2015.

*Profit/(loss) for the period*

The loss for the twelve months ended June 30, 2016 was £5.6m, compared with profit of £6.5m for the twelve months ended June 30, 2015.

## COMPARISON OF LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Combined Financial Information to the Audited Consolidated Financial Statements

For the purposes of reconciling the combined financial information (the "Combined Results") to the Audited Consolidated Financial Statements (the "Consolidated Results"), the table below provides an aggregation of the loss on ordinary activities before taxation for the Combined Financial Information in the quarter ended June 30, 2015 and the twelve months ended June 30, 2016.

| | *Combined Three months ended 30 June 2015 £000s* | *Combined Twelve months ended 30 June 2016 £000s* | *Combined Fifteen months ended 30 June 2016 £000s* |
|---|---|---|---|
| ***Group turnover*** | **30,684** | **119,044** | **149,728** |
| Cost of sales | (11,170) | (47,185) | (58,355) |
| ***Gross profit*** | **19,514** | **71,859** | **91,373** |
| Administrative expenses | (11,284) | (51,556) | (62,840) |
| ***Group operating profit*** | **8,230** | **20,303** | **28,533** |
| Share of operating profit in joint venture | 175 | (47) | 128 |
| ***Total operating profit: group and share of joint venture*** | **8,405** | **20,256** | **28,661** |
| Interest receivable and similar income | 5 | 85 | 90 |
| Interest payable and similar charges | (6,263) | (26,087) | (32,350) |
| ***Profit/(Loss) on ordinary activities before taxation*** | **2,147** | **(5,746)** | **(3,599)** |

The table below provides a reconciliation of the loss on ordinary activities before taxation between the Combined Financial Information for the fifteen months ended June 30, 2016 set our above and the Audited Consolidated Financial Statements for the fifteen months ended June 30, 2016

| | *Unaudited Combined Fifteen months ended 30 June 2016 £000s* | *Audited Consolidated Fifteen months ended 30 June 2016 £000s* | *Difference £'000s* |
|---|---|---|---|
| ***Group turnover*** | **149,728** | **149,728** | **-** |
| Cost of sales (1) | (58,355) | (107,028) | (48,673) |
| ***Gross profit*** | **91,373** | **42,700** | **(48,673)** |
| Administrative expenses | (62,840) | (29,968) | 32,872 |
| ***Group operating profit*** (2) | **28,533** | **12,732** | **(15,801)** |
| Share of operating profit in joint venture | 128 | 128 | - |
| ***Total operating profit: group and share of joint venture*** | **28,661** | **12,860** | **(15,801)** |
| Interest receivable and similar income | 90 | 90 | - |
| Interest payable and similar charges | (32,350) | (32,350) | - |
| ***Loss on ordinary activities before taxation*** | **(3,599)** | **(19,400)** | **(15,801)** |

Notes

(1) In the Audited Consolidated Financial Statements 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 £48.7m and decreases administrative expenses by the same amount but has no impact on the group's loss or net assets.

(2) The reduction in group operating profit arises due to two adjustments arising upon consolidation of the MRE UK group, these being:

i. an increase in fixed asset depreciation of £9.7m 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 £6.1m resulting from the amortization of goodwill arising upon acquisition of the group by MRE UK PLC.