Melton Renewable Energy UK PLC

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

Issued by Melton Renewable Energy UK PLC

Quarterly Report (Q3 – 2017/18)

Financial Results for the quarter and nine months ended March 31, 2018

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FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

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

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

KEY EVENTS AND RECENT DEVELOPMENTS

Electricity prices

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

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

The electricity price receivable by the Landfill Gas business for the six months commencing April 1, 2018 was confirmed at £41.52 per MWh following the conclusion of the two month price setting period in mid-March. This reflects a marginal reduction in the electricity price received by the Landfill Gas Business compared to that it received in the corresponding period in 2017 of £41.64 per MWh.

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

Biomass Twelve months ended/ending September 30,			**Landfill Gas Six months ended March 31,**		**Landfill Gas Six months ended / ending September 30,**		
(*In £ per MWh*)			**(*In £ per MWh*)**		**(In £ per MWh)**		
2016	**2017**	**2018**	**2017**	**2018**	**2016**	**2017**	**2018**
39.89	38.95	40.13	43.64	46.09	30.02	41.64	41.52

Yorkshire Windpower Limited ("YWP")

On April 24, 2018 the amounts owed by YWP to each of the two shareholders in respect of the loans made previously for the repowering of Ovenden Moor were converted to equity. The total amount converted, inclusive of cumulative loan interest, was £25.6m, of which 50% was due to the MRE group and the balance to E.ON Climate and Renewables Limited. Subsequent to the conversion, YWP's share capital was reduced to the previous level, with an equivalent increase in distributable reserves. MRE continues to hold a 50% holding in YWP's ordinary share capital.

YWP has a March 31, year end. For the year ended March 31, 2018, during which the Ovenden Moor repower was completed, YWP's output was 62.8GWh, approximately 10% less than anticipated due to issues and delays in commissioning and hand-over. These have now been resolved and Ovenden Moor's availability is in line with expectations.

Triad income

All five biomass power stations and the landfill gas sites were exporting at generally good load during the three confirmed triad periods of peak electricity demand between November 1, 2017 and February 28, 2018. This, combined with an increase in general unit values, resulted in triad revenue of £5.5m compared to £5.3m in the quarter ended March 31, 2017.

Quarter 4 2017/18 straw availability

Available straw from the 2017 harvest was below expectations due to poor weather in the spring of 2017, resulting in lower yield, and which combined with a subsequent wet harvest period resulted in less straw being baled. This supply situation has been exacerbated by the long and harsh winter of 2017/18, with greater demand for straw for cattle bedding and fodder. As a result, a number of fuel contracts have under-delivered post March 2018 and Ely has operated at around 60% load factor since the beginning of quarter 4 2017/18.

Refinancing of senior secured notes

The business continues to investigate and progress opportunities for refinancing the senior secured notes. A further update should be available in summer 2018.

PRESENTATION OF FINANCIAL AND OTHER DATA

Financial information and operational data

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

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.

This quarterly report includes unaudited combined historical financial statements for the Issuer and its subsidiaries as of and for both the quarter and nine months ended March 31, 2018 together with comparative combined results as of and for both the quarter and nine months ended March 31, 2017 (the "Combined Financial Information").

Combined Financial information

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 both the quarter and nine months ended March 31, 2017 and 2018. This presentation of financial information is consistent with that included in our Offering Memorandum.

The Combined Financial Information represents an aggregation of the amounts recognized in the financial records of entities within the MRE UK group to show the historical trading performance and excludes certain accounting entries arising upon consolidation of the MRE UK group. These adjustments, in respect of fair value of fixed assets and goodwill, are included within the Condensed Consolidated Interim Financial Information also presented within this report from page 31 onwards. A reconciliation of the loss on ordinary activities before taxation between the two presentations is included on page 51.

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.

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 Condensed Consolidated Interim Financial Information of MRE UK the directors have adopted a broader classification of costs of sales to include all plant maintenance, depreciation and operational staff costs in addition to those costs described above. Profit on ordinary activities and EBITDA is not affected by the reclassification of costs from administrative expenses to cost of sales. The Combined Financial Information has been prepared in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, in all other respects.

Non-GAAP Measures

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

The Non-GAAP Measures presented in this quarterly report are unaudited and have not been prepared in accordance with IFRS or FRS 102 or any other accounting standards. In addition, the presentation of these measures is not intended to, and does not comply with, the reporting requirements of the SEC; compliance with its requirements would require us to make changes to the presentation of this information. A reconciliation of EBITDA and EBITDA (before ROC Recycle payments) to profit for the relevant financial period is included within the "Combined Financial Information and Other Data".

You should not consider EBITDA or any other Non-GAAP Measures presented herein as alternatives to measures of financial performance determined in accordance with generally accepted accounting principles (such as profit for the period), as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for the limitations of Non-GAAP Measures by relying primarily on our FRS 102 results and using these Non-GAAP Measures only to supplement evaluation of our performance. You are encouraged to evaluate each of the adjustments reflected in our presentation of the Non-GAAP Measures and whether you consider each to be appropriate.

COMBINED FINANCIAL INFORMATION AND OTHER DATA

The following represents summary Combined Financial Information and other data for MRE UK and its subsidiaries as of and for both the quarter and nine months ended March 31, 2018, together with comparatives.

Executive Summary

Generation

The group's output for the quarter ended March 31, 2018 was 293.3GWh, 3.6GWh (1.2%) higher than the 289.7GWh achieved in the quarter ended March 31, 2017.

Output from the Biomass Business was 214.0GWh in the quarter ended March 31, 2018, 7.8GWh (3.8%) higher than the corresponding quarter in the previous year. Operational performance at Ely power station continued to be strong during the quarter with availability above 98% and consistently good load factor contributing to an increase in its output of 10.0GWh (15.6%) when compared with the quarter ended March 31, 2017.

Output from the Landfill Gas Business was 79.3GWh in the quarter ended March 31, 2018, representing a decrease of 4.2GWh (5.0%) when compared with the corresponding quarter in the previous year. Output from the Landfill Gas portfolio is generally anticipated to decline gradually due to the age and operating profile of the landfill sites from which it operates and the rate of decline between the two quarters is in line with expectations.

Pricing

The group's results for the quarter ended March 31, 2018 reflect the favourable movement in wholesale electricity prices during the summer 2017 PPA price re-set periods, as follows:

- The electricity price received by the Biomass PPA was re-set for the twelve months ending September 30, 2018 at £40.13/MWh, 3% higher than the £38.95/MWh received in the twelve months ended September 30, 2017.

- The electricity price received by the Landfill Gas PPA was re-set for the six months ending March 31, 2018 at £46.09/MWh, 5.6% higher than the £43.64/MWh received in the six months ended March 31, 2017.

Turnover

The group's turnover in the quarter ended March 31, 2018 was £35.5m, an increase of £1.4m (4%) when compared with the quarter ended March 31, 2017. The increase was primarily attributable to:

- Triad revenue of £5.5m compared to £5.3m in the quarter ended March 31, 2017, with all five biomass power stations and the landfill gas sites exporting at good load during the three confirmed triad periods of peak electricity demand between November 1, 2017 and February 28, 2018.

- Excluding triad revenue, there was a £1.3m increase in generation revenue in the Biomass Business for the quarter ended March 31, 2018 when compared to the corresponding quarter, due to the 7.8GWh increase in output combined with slightly higher electricity prices and the indexation of the ROC buy-out value.

Costs

Cost of sales in the quarter ended March 31, 2018 were £13.0m, an increase of £0.8m from £12.2m in the comparative quarter of the previous year with the increase attributable to:

- An increase of £0.7m in fuel costs within the Biomass Business, a direct result of the increased output and the variation in the output profile between the two periods, with an increased proportion of output from Ely in the quarter ended March 31, 2018 (with straw being the highest cost biomass fuel on a per MWh basis); and

- An increase in fertilizer processing costs of £0.1m resulting from the greater sales volumes when compared to the corresponding period of the previous year.

COMBINED FINANCIAL INFORMATION AND OTHER DATA (continued)

Executive Summary (continued)

Administrative expenses in the quarter ended March 31, 2018 were £11.8m, an increase of £0.4m from £11.4m in the comparative quarter, reflecting a combination of higher business rates charges following the VOA's revaluation effective from April 2017 and an increase in plant maintenance costs both within the Biomass Business.

YWP

Following the completion of YWP's re-powered wind-farm at Ovenden Moor during 2017, the share of operating profit attributable to the group in the quarter ended March 31, 2018 was £0.6m, an increase of £0.3m compared with the corresponding quarter in the previous year.

EBITDA

As a result of the above, the group's EBITDA for the quarter ended March 31, 2018 was £15.3m, an increase of £0.5m (3.4%) compared with the quarter ended March 31, 2017.

COMBINED FINANCIAL INFORMATION AND OTHER DATA (continued)

Combined Statement of Income

(in thousands of £)	Quarter ended March 31, 2017	Quarter ended March 31, 2018	Nine months ended March 31, 2017	Nine months ended March 31, 2018
Group turnover……………………………………………………	**34,106**	**35,492**	**88,846**	**98,737**
Cost of sales...	(12,138)	(12,967)	(35,469)	(38,395)
Gross profit…………………………………………………………	**21,968**	**22,525**	**53,377**	**60,342**
Administrative expenses……………………………………….	(11,357)	(11,818)	(38,789)	(39,606)
Profit on the sale of fixed assets…………………………….	-	-	-	183
Other operating income	-	85	-	85
Group operating profit…………………………………………..	**10,611**	**10,792**	**14,588**	**21,004**
Share of operating profit in joint venture…………………	306	649	342	1,577
Total operating profit: group and share of joint venture……………………………………………………………..	**10,917**	**11,441**	**14,930**	**22,581**
Interest receivable and similar income……………………	7	49	23	60
Interest payable and similar charges………………………..	(6,162	(5,920)	(18,413)	(17,973)
Profit/(loss) on ordinary activities before taxation…………………………………………………………	**4,762**	**5,570**	**(3,460)**	**4,668**
Tax on profit/(loss) on ordinary activities………………………………………………………………	(1,123)	(1,141)	278	(991)
Profit/(loss) for the period……………………………………	**3,639**	**4,429**	**(3,182)**	**3,677**

Reconciliation of profit/(loss) for the period to EBITDA

(in thousands of £)	Quarter ended March 31, 2017	Quarter ended March 31, 2018	Nine months ended March 31, 2017	Nine months ended March 31, 2018
Profit/(loss) for the period...	3,639	4,429	(3,182)	3,677
Tax on profit/(loss) on ordinary activities…………………	1,123	1,141	(278)	991
Interest payable and similar charges………………………	6,162	5,920	18,413	17,973
Interest receivable and similar income…………………….	(7)	(49)	(23)	(60)
Depreciation …………………………………………………………..	2,601	2,540	7,586	7,589
Amortization…………………………………………………………….	1,316	1,316	3,949	3,949
EBITDA…………………………………………………………………..	**14,834**	**15,297**	**26,465**	**34,119**

Our EBITDA represents profit/(loss) for the period *plus* tax on profit/(loss) on ordinary activities, interest payable and similar charges, depreciation and amortization. EBITDA is not a measurement of performance under FRS 102 and you should not consider EBITDA as an alternative to (a) operating profit or loss for the period (as determined in accordance with FRS 102) as a measure of our operating performance, (b) cash flows from operating investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under FRS 102.

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

COMBINED FINANCIAL INFORMATION AND OTHER DATA (continued)

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

	Quarter ended March 31,		Nine months ended March 31,	
	2017	2018	2017	2018
(in thousands of £)				
EBITDA...	14,834	15,297	26,465	34,119
ROC Recycle payments………..…………………………………	-	-	-	(5,675)
EBITDA (excluding ROC Recycle payments)……………	**14,834**	**15,297**	**26,465**	**28,444**

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.

Combined Statement of Cash Flows

	Quarter ended March 31,		Nine months ended March 31,	
	2017	2018	2017	2018
(in thousands of £)				
Net cash inflow from operating activities…………………	11,776	11,197	20,763	31,136
Returns on investment and servicing of finance……….	(5,183)	(5,151)	(10,419)	(10,391)
Taxation (paid)/received………………………………………	-	(275)	(707)	56
Capital expenditure and financial investment………….	(239)	(259)	(2,245)	(2,326)
Receipts from sales of tangible fixed assets…………….	-	-	-	250
Loans to associated undertakings………………………….	-	-	(355)	-
Net cash outflow from financing……………………………	-	(6,500)	-	(6,500)
Increase/(decrease) in cash…………………………………	**6,354**	**(988)**	**7,037**	**12,225**

Consolidated Balance Sheet

	Audited As at June 30, 2017	Unaudited As at March 31, 2018
(in thousands of £)		
Cash at bank and in hand……………………………………………………………………	16,342	28,567
Other current assets…………………………………………………………………………	53,381	53,343
Total non-current assets……………………………………………………………………	239,917	224,662
Total assets……………………………………………………………………………………	**309,640**	**306,572**
Total non-current liabilities…………………………………………………………………	297,707	300,058
Total current liabilities………………………………………………………………………	20,948	18,466
Total liabilities………………………………………………………………………………	318,655	318,524
Total invested capital………………………………………………………………………	(9,015)	(11,952)
Total invested capital and liabilities…………………………………………………	**309,640**	**306,572**

Presented above is the unaudited consolidated balance sheet of MRE UK as at March 31, 2018, together with the audited consolidated balance sheet as at June 30, 2017.

COMBINED FINANCIAL INFORMATION AND OTHER DATA (continued)

Combined Turnover by Business

	Quarter ended March 31,		Nine months ended March 31,	
	2017	2018	2017	2018
(in thousands of £)				
Biomass Business..	25,561	27,203	66,674	74,589
Landfill Gas Business……………………………………………….	8,545	8,289	22,172	24,148
	34,106	**35,492**	**88,846**	**98,737**

Staff costs & Employee Information

	Quarter ended March 31,		Nine months ended March 31,	
	2017	2018	2017	2018
(in thousands of £)				
Wages and salaries..	2,533	2,631	7,714	8,068
Social security costs……………………………………………….	276	288	877	933
Other pension costs……………………………………………….	97	111	290	305
	2,906	**3,030**	**8,881**	**9,306**

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

	Quarter ended March 31,		Nine months ended March 31,	
By activity	2017	2018	2017	2018
Production……………...	194	196	196	194
Administration……..……………………………………………	60	59	60	58
	254	**255**	**256**	**252**

Interest payable and similar charges

	Quarter ended March 31,		Nine months ended March 31,	
	2017	2018	2017	2018
(in thousands of £)				
Interest payable to shareholder company……………..	3,280	3,018	9,765	9,263
Bond interest payable……………….………………………….	2,565	2,565	7,695	7,695
Amortization of debt issue costs…………………………….	255	276	768	828
Facility fees and charges……………………………………….	62	61	185	187
	6,162	**5,920**	**18,413**	**17,973**

COMBINED FINANCIAL INFORMATION AND OTHER DATA (continued)

Other Financial Data

(in thousands of £)	Quarter ended March 31, 2017	Quarter ended March 31, 2018	Nine months ended March 31, 2017	Nine months ended March 31, 2018
EBITDA ………………………………………………………………..	14,834	15,297	26,465	34,119
EBITDA (excluding ROC Recycle payments)…………..	14,834	15,297	26,465	28,444
Net third-party debt (1)…………………………………………..	120,325	121,147	120,325	121,147
Capital expenditures (2)…………………………………………..	239	259	2,245	2,326

(1) Net third-party debt consists of our senior secured debt net of unamortized debt issue costs and cash at bank and in hand.
(2) Capital expenditures represent additions to tangible and intangible assets.

Other Performance Data

	Quarter ended March 31, 2017	Quarter ended March 31, 2018	Nine months ended March 31, 2017	Nine months ended March 31, 2018
Output GWh…………………………………………………………	**289.7**	**293.3**	**832.9**	**842.3**
Biomass…………………………………………………………………	206.2	214.0	576.5	596.4
Landfill………………………………………………………………….	83.5	79.3	256.4	245.9
Availability % (1)…………………………………………………	**95.2%**	**94.1%**	**91.9%**	**92.0%**
Biomass…………………………………………………………………	94.5%	93.5%	88.4%	87.9%
Landfill (2)……………………………………………………………….	95.9%	94.6%	95.4%	96.1%

(1) Availability is presented as the unweighted average availability in our Biomass Business and Landfill Gas Business.
(2) Within the Landfill Gas Business, spare engines are not included in the calculation of available hours.

OPERATING AND FINANCIAL REVIEW

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

The following is a discussion of our results of operations in the periods set out below. You should read this discussion together with the sections entitled "Combined Financial Information and Other Data" and the combined financial statements and the related notes and information included within this quarterly report. The combined financial information in this discussion of our results of operations and financial condition as of and for the quarter and nine months ended March 31, 2018 and March 31, 2017 has been derived from unaudited combined financial information included elsewhere in this quarterly report.

Business Overview

We are an independent generator of renewable energy in the United Kingdom and as at March 31, 2018 our portfolio of electricity generating assets had a total net installed capacity of 172 MW. We have a business which is diversified across multiple technologies, sites, network connection points and renewable fuels.

Through our Biomass Business, we own and operate a portfolio of five biomass fueled power stations based in the United Kingdom, with a total net installed capacity of 113 MW. Through our Landfill Gas Business, we own and operate methane-powered electricity generation assets at 23 landfill sites across the United Kingdom, representing 59 MW of installed capacity. During the quarter ended March 31, 2018, the portfolio generated 293GWh with group turnover of £35.5m and EBITDA of £15.3m.

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

The Biomass Business also sells the majority of its residue combustion ashes from its biomass power stations as fertilizer. This element of our business is seasonal with the majority of sales arising during August and September each year. For the quarter ended March 31, 2018 fertilizer sales were 11,316 tonnes with turnover of £0.6m. Additionally, our Biomass Business owns a 50% equity stake in YWP which owns and operates two onshore wind farms in the United Kingdom. The combined installed capacity of YWP increased in 2017 to 24.5MW following the completion of its re-power project at Ovenden Moor (with an installed capacity of 18MW).

For the quarter ended March 31, 2018, our Biomass Business generated 214GWh of electricity with turnover of £27.2m (including fertilizer sales) and EBITDA of £11.3m.

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. We enter into specific, long-term gas agreements with each landfill site owner or operator which allow us to use the gas produced in return for payment of a royalty, linked to the turnover derived from the relevant site. We sell almost all of the electrical output of, and associated regulatory incentives attributable to, our Landfill Gas Business pursuant to a long-term power purchase agreement with British Gas.

As at March 31, 2018 we operated from 23 landfill sites across the United Kingdom, with a total of 63 gas engines and a total installed capacity of approximately 59MW.

For the quarter ended March 31, 2018, the Landfill Gas Business generated 79GWh with turnover of £8.3m and EBITDA of £3.2m.

Key Factors Influencing Our Results of Operations

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

Power Contracting

We sell the entire electrical output and all other revenue elements of Thetford, Eye, Glanford, Ely and Westfield to British Gas pursuant to a long term power purchase agreement which runs to March 31, 2020 ("the BG Biomass PPA"). We sell the electrical output from all 23 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"). There is one remaining NFFO contract in place within the landfill gas portfolio covering an element of separately-metered electricity from the Jameson Road landfill site. This NFFO contract is due to expire in November 2018 after which this element of output, together with all other output, will be sold under the British Gas Landfill Gas PPA.

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

Wholesale Energy Prices

The market for wholesale electricity is affected by a number of factors, including the price of input fuel commodities, supply dynamics such as generator availability, and demand for electricity. Accordingly the wholesale electricity price may be volatile.

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

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 PPAs.

Biomass Twelve months ended/ending September 30, (*In £ per MWh*)			Landfill Gas Six months ended March 31, (*In £ per MWh*)		Landfill Gas Six months ended / ending September 30, (In £ per MWh)		
2016	**2017**	**2018**	**2017**	**2018**	**2016**	**2017**	**2018**
43.36	42.34	43.62	45.94	48.51	31.60	43.83	43.70

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 was replaced by the RO regime, 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 number of our sites operating under the NFFO/SRO regime has significantly diminished since the introduction of the RO regime, with just one NFFO contract currently remaining and this is due to expire in November 2018.

The RO regime was established in 2002 and required energy suppliers to source a growing percentage of electricity from eligible renewable generation capacity. Renewable energy generators, such as MRE UK, 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 MRE's installed capacity have been grandfathered and will remain in place until 2027. We transfer and sell these ROCs to British Gas, through our PPAs, who in turn use them to satisfy their renewable obligation. 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.

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

The level of the annual ROC Recycle payment is dependent upon the level of renewable generation and ROCs issued and subsequently submitted by electricity suppliers for the compliance year, compared to the target set by the Department of Business, Energy & Industrial Strategy ("BEIS"), which since 2011/12 has been based upon its expectations of such generation, plus 10% headroom. BEIS 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, in respect of the compliance year to the previous March 31.

During the quarter ended March 31, 2018, the entire output of our Biomass Business's power stations and the vast majority of output from our landfill sites was supported by the RO regime. A small proportion of the electricity generated from one of our landfill sites was separately metered and sold pursuant to a NFFO contract. For the quarter ended March 31, 2018, the group's electricity revenue comprised sales of £34.7m under the RO regime and £0.1m 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, waste wood and MBM. The price of biomass fuel for our power stations is affected by a number of factors, including competition for existing fuels from other biomass power stations or alternative users, adverse weather, supply chain issues or changes to the regulatory regime governing the availability or price of these fuels. To mitigate the effect of price volatility on our business, where possible, we source the majority of our biomass fuels pursuant to medium and long-term contracts with a variety of suppliers.

We generally source poultry litter under long-term contracts, with the price linked to the RPI over the duration of the contract period. For the quarter ended March 31, 2018, we sourced poultry litter pursuant to 15 supply contracts. The vast majority of our straw is also procured under fixed-term supply contracts.

MBM is generally sourced under contracts of one to three years in length with four or five of the UK's MBM producers. Contracts have been signed for 2018 with five MBM suppliers covering the total fuel requirement of Glanford Power Station for the year.

The majority of waste wood requirements are supplied under three contracts, between three and five years in length, all of which were signed in 2017. The remaining waste wood requirements are sourced under spot agreements.

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 by way of a delivered cost per tonne of biomass fuel, diesel price increases are borne by the fuel supplier, whereas the Biomass Business bears the costs of diesel price increases where haulage is separately contracted for. We estimate that, for the quarter ended March 31, 2018, approximately 28% of the fuel we sourced included haulage costs in the contracted fuel price. Historically, when diesel prices have increased, wholesale market electricity prices have usually increased in parallel, mitigating the increase in separately contracted haulage costs; however, there is no contractual link.

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

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

Landfill Sites Portfolio Output

Our Landfill Gas Business generates electricity using landfill gas (methane) to fuel gas engines installed across 23 sites. Landfill gas is naturally occurring and is created through the anaerobic decomposition of organic matter over time. The output of energy at our landfill sites depends on the availability and collection of landfill gas, which in turn is affected by a number of factors which are not constant, including the amount and type of waste deposited in the landfill, the operational practices of the landfill operator, the rate of anaerobic decomposition, the efficiency of the landfill gas collection process and the weather. Additionally, the volume of gas production depends on whether individual cells within a landfill site are capped (sealed) or uncapped and whether the overall site is open or closed to new waste deposits. As a result, the landfill gas available and collected at individual sites and associated electrical output fluctuates although such changes are spread across 23 sites.

Output decreased by 4.2GWh, or 5.0%, from 83.5GWh in the quarter ended March 31, 2017 to 79.3GWh in the quarter ended March 31, 2018. A reduction in output can be expected due to the fact that 16 of the 23 sites from which the Landfill Gas Business operates are closed to new waste deposits and gas volumes from these sites are expected to gradually decline over time.

We have secured access to our 23 landfill sites pursuant to long-term gas supply agreements with the relevant landfill site owner or operator. Pursuant to the gas supply agreements, we have the right to use the gas produced at the site in return for payment of a royalty fee to the landfill owner or operator. Royalty mechanisms vary from site to site, but are based on a percentage of the revenue received in respect of a site.

As of March 31, 2018 the Landfill Gas Business' gas supply arrangements had a remaining average term of 7 years and 1 month. Four of the 23 gas supply arrangements (representing approximately 4% of output in the nine months to March 31, 2018) are scheduled to expire by March 31, 2020 and where economically viable will need to be extended.

Availability of Assets

Biomass Business

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

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

For the quarter ended March 31, 2018, Thetford, Eye, Ely, Glanford and Westfield had availabilities (including planned and unplanned outages) ranging between 91% and 98% with an average of 94%. In addition, we measure the performance of our biomass power stations by load factor, representing the actual output generated by our power stations in a given period as a percentage of the theoretical maximum output of that plant. The theoretical maximum output assumes that the plant runs at its net capacity continuously over such period.

Two elements generally affect output and load factor: (i) scheduled or unscheduled outages of the plant, during which a power station does not generate electricity (for example, to undertake maintenance activity); or (ii) electricity generation at below maximum net capacity due to, for example, operational issues or combustion conditions. In general, we aim to maximize availability, load factor and output over the long-term through effective plant condition monitoring, preventative maintenance, operational risk management and planning within our operational plans.

Landfill Gas Business

Within our Landfill Gas Business, we focus on engine availability, as planned and unplanned engine outages (i.e. an engine being unable to operate) can affect our operations. As we do in our Biomass Business, we mitigate the risk of unplanned engine outages by undertaking plant condition monitoring and preventative maintenance. We aim to follow our engine manufacturers' best practice recommendations and we carry out engine overhauls approximately every 20,000 operating hours. We supplement our maintenance strategy with a stock of strategic spare parts and a trained team of operational staff. For the quarter ended March 31, 2018, our gas engine fleet had availability of 94.6%, a marginal reduction compared to the 95.9% achieved in the corresponding quarter of the previous year.

We optimize the deployment of our engine fleet across the landfill site portfolio where possible by matching engine capacity to gas resource, thereby maximizing operational efficiency. Where possible we replace larger engines with existing smaller engines at landfill sites with declining landfill gas volumes and output, thereby better matching engine capacity with gas volume and reducing operating costs as well as personnel and maintenance costs at those sites. Similarly, we have relocated spare engines to sites with greater landfill gas resource and running at full capacity, to create spare engine capacity which can be utilized whenever another engine has a planned or unplanned outage.

YWP - 50% Joint Venture

Ovenden Moor

The 18MW of installed capacity at the Ovenden Moor wind-farm is accredited at 0.9 ROCs per MWh under the Renewables Obligation for 20 years with effect from January 24, 2017. The site is managed by RES and the turbines maintained by Gamesa through a five year O&M contract.

Output from Ovenden Moor in the quarter ended March 31, 2018 was 17,038MWh.

Royd Moor

The Royd Moor windfarm comprises 13 turbines each of 0.5MW which were commissioned in 1993 and are accredited at 1 ROC per MWh, grandfathered to March 31, 2027. Operations, maintenance and site management is undertaken on behalf of YWP by Jacobs.

On February 2, 2018 YWP was granted a five year extension to the planning consent for Royd Moor which had been due to expire on December 31, 2018. YWP is in the process of agreeing an extension to the existing land lease and O&M agreements, with the intention of extending the operational life of the windfarm beyond its original planning permission of December 2018.

Output from Royd Moor in the quarter ended March 31, 2018 was 2,478MWh, a reduction of 589MWh compared with the quarter ended March 31, 2017, a result of comparatively lower wind resource.

As is typical of wind assets, YWP's output is seasonal with approximately one third of its output expected to arise in the six months to September 30 and the balance in the six months to March 31.

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. The actual triad periods are announced retrospectively at the end of each March, being the three half hour periods (at least ten days apart) between November 1 and February 28 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, MRE UK tends to book a greater portion of its revenue in the October to December and January to March quarters of each financial year.

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

Group Organization

We manage our operations by business units, referred to in this quarterly report as our "businesses," which include our Biomass Business and our Landfill Gas Business. Our Biomass Business generated turnover of £27.2m in the quarter ended March 31, 2018 compared to £25.6m in the quarter ended March 31, 2017. Turnover generated in our Biomass Business predominantly consists of revenue from the sale of electricity, ROCs and embedded benefits under our PPAs, accounting for an aggregate of £26.5m in the quarter ended March 31, 2018 compared to £24.9m in the quarter ended March 31, 2017.

Turnover generated in our Biomass Business also includes sales of Fibrophos fertilizer, this element of our business is seasonal with the majority of sales arising during August and September each year. Revenue in the quarters ended March 31, 2018 and March 31, 2017 was £0.6m.

Our Landfill Gas Business generated turnover of £8.3m in the quarter ended March 31, 2018 compared to £8.5m in the quarter ended March 31, 2017, representing 23.4% and 25.1% of group turnover respectively. Turnover generated in our Landfill Gas Business consists of revenue from the sale of electricity, ROCs and embedded benefits under the BG Landfill Gas PPA.

Analysis of Key Operating and Performance Measures

We use several key operating measures including output, availability and average revenue per MWh, to track business performance. Additionally, we rely on load factor to track the performance of our Biomass Business. None of these terms are measures of financial performance under FRS 102, nor have these measures been reviewed by an outside auditor, consultant or expert. These measures are derived from management information systems. As these terms are defined by our management, they may not be comparable to similar terms used by other companies.

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

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

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

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

The following table sets forth certain key operating measures for the group for the quarter and nine month periods ended March 31, 2017 and 2018:

	Quarter ended March 31,		Nine months ended March 31,	
	2017	**2018**	**2017**	**2018**
Biomass Business				
Output (in MWh)	206,239	214,001	576,501	596,431
Availability (in %)	94.5%	93.5%	88.4%	87.9%
Average load factor	87.6%	92.3%	80.5%	83.7%
Thetford	92.0%	97.4%	84.3%	86.7%
Ely	82.5%	95.4%	76.8%	85.2%
Glanford	94.6%	91.2%	87.5%	84.9%
Eye	90.3%	83.7%	77.8%	79.5%
Westfield	76.8%	72.8%	72.8%	69.7%
Average Revenue per MWh (in £)	120.64	124.02	107.88	117.06
Landfill Gas Business				
Output (in MWh)	83,476	79,282	256,353	245,902
Availability (in %)	95.9%	94.6%	95.4%	96.1%
Average revenue per MWh (in £)	102.27	104.37	86.45	98.09

Biomass Business

Quarter ended March 31, 2018 compared to the quarter ended March 31, 2017

For the quarter ended March 31, 2018, output from the Biomass Business was 214,001 MWh, an increase of 7,762 MWh, or 3.8%, compared to 206,239 MWh for the quarter ended March 31, 2017.

For the quarter ended March 31, 2018 the average availability across the five power stations remained high at 93.5%, albeit representing a marginal decrease when compared to the quarter ended March 31, 2017, although this was more than offset by improved load factor.

The average portfolio load factor increased from 87.6% to 92.3% between the two quarters driven by strong performance at Thetford and Ely. Both stations recorded load factors well in excess of 90%, representing an increase when compared to the corresponding quarter in the previous year.

Load factor at Glanford and Westfield decreased slightly in the quarter ended March 31, 2018 compared to the comparative quarter of the previous year. The load factor at Eye in the quarter ended March 31, 2018 compared with the comparative quarter of the previous year reflected focus on the control of CO emissions following the introduction of waste wood into the station's fuel mix.

For the quarter ended March 31, 2018, average revenue per MWh of the Biomass Business was £124.02, an increase of £3.38 or 2.8% when compared with the £120.64 for the quarter ended March 31, 2017.

Landfill Gas Business

Quarter ended March 31, 2018 compared to the quarter ended March 31, 2017

For the quarter ended March 31, 2018, output from the Landfill Gas Business was 79,282 MWh, a reduction of 4,194 MWh, or 5.0%, compared to 83,476 MWh for the quarter ended March 31, 2017. A gradual reduction in output can be expected due to the fact that 17 of the 23 sites from which the Landfill Gas Business operated during the quarter are closed to new waste deposits and gas volumes from these sites are expected to gradually decline over time. The rate of decline between the two quarters was in line with expectations.

For the quarter ended March 31, 2018, average revenue per MWh of the Landfill Gas Business was £104.37, an increase of £2.10 or 2.1% when compared with the £102.27 for the quarter ended March 31, 2017.

Discussion of Financial Results

Revenue from generation

The following table provides an analysis of turnover from electricity generation of our Biomass Business and our Landfill Gas Business for the quarters and nine months ended March 31, 2017 and 2018:

	Quarter ended March 31,		**Nine months ended March 31,**	
(in thousands of £)	**2017**	**2018**	**2017**	**2018**
Biomass Business				
Wholesale market electricity price......................	8,121	8,678	22,823	23,958
ROC buyout……………………………………………………..	12,538	13,152	34,860	36,578
ROC Recycle……………………………………………………	-	-	-	4,299
Triad income…………………………………………………..	3,896	4,256	3,896	4,256
Other embedded benefits………………………………..	324	455	615	728
	24,879	**26,541**	**62,194**	**69,819**
Landfill Gas Business				
Wholesale market electricity price......................	3,488	3,581	9,641	10,702
NFFO income…………………………………………………..	160	75	439	280
ROC buyout……………………………………………………..	3,184	3,103	9,804	9,662
ROC Recycle……………………………………………………	-	-	-	1,376
Triad income…………………………………………………..	1,429	1,230	1,429	1,230
Other embedded benefits………………………………..	276	285	850	870
	8,537	**8,274**	**22,163**	**24,120**

Turnover from electricity generation in the Biomass Business increased from £24.9m in the quarter ended March 31, 2017 to £26.5m in the quarter ended March 31, 2018.

The increase in turnover reflects higher output (7.8GWh) together with slightly higher electricity prices, the indexation of the ROC buy-out value and higher year on year triad income.

In the Landfill Gas Business, turnover from electricity generation decreased by £0.3m to £8.3m in the quarter ended March 31, 2018 compared to the same quarter in the prior year. The reduction in turnover reflects lower output (4.2GWh), offset in part by a higher electricity price and the indexation of the ROC buy-out value.

Revenue from Fibrophos fertilizer sales

	Quarter ended March 31, 2017	Quarter ended March 31, 2018	Nine months ended March 31, 2017	Nine months ended March 31, 2018
Fertilizer sales volumes (tonnes)................................	10,636	11,316	79,287	88,356
Average price per tonne (£/tonne)…………………………..	62	55	55	52
Fertilizer revenue (in thousands of £)……………………….	665	623	4,394	4,632

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

Sales volumes in the quarter ended March 31, 2018 were broadly in line with expectations at 11,316 tonnes, an increase of 680 tonnes (6%) compared to the quarter ended March 31, 2017. Sales revenues were £0.6m in both quarters. For the nine month period ended March 31, 2018 sales volumes were 88,356 tonnes, an increase of 11% when compared to the comparative nine month period in the previous year.

The average selling price in the quarter ended March 31, 2018 was £55 per tonne, a decrease of £7 per tonne when compared to the corresponding quarter in the previous year. The majority of this reduction reflects variations in the fertilizer grades sold between the two quarters, however underlying commodity prices (phosphate and potash) remained weak, and this is reflected in the general reduction in average selling prices in both the quarter and nine months ended March 31, 2018 compared with the two comparative periods.

Fuel Costs

Total fuel costs for our Biomass Business for the quarters and nine months ended March 31, 2017 and 2018 are summarized below:

(in thousands of £)	**Quarter ended March 31, 2017**	**Quarter ended March 31, 2018**	**Nine months ended March 31, 2017**	**Nine months ended March 31, 2018**
Fuel costs…………………………..............................	8,567	9,240	23,578	25,061

Fuel costs, consisting of biomass fuel costs (including associated haulage and storage), fossil fuel and sorbent costs, increased by £0.7m (7.9%) in the quarter ended March 31, 2018 when compared to the corresponding quarter in the previous year.

The majority of this increase arose as a direct result of the 7.8GWh increase in output from the Biomass Business which required additional biomass fuel input. The balance is explained by a variation in the mix of biomass output between the two periods, with an increased proportion of output generated at Ely in the quarter ended March 31, 2018, this being the station with the highest cost biomass fuel (straw) on a per MWh basis.

Whilst there has been an increase in biomass fuel costs in respect of Glanford in the quarter ended March 31, 2018 compared with the comparative quarter of the previous year due to contract renewals commencing January 2018, this has been offset by lower fuel costs at Eye following the introduction of waste wood from July 2017.

Similarly in the nine months ended March 31, 2018 output from the Biomass Business increased by 19.9GWh when compared to the nine months ended March 31, 2017 requiring greater fuel inputs and a corresponding increase in biomass fuel costs.

Landfill Gas Royalties

We have secured access to our 23 landfill sites pursuant to long-term gas supply agreements with the relevant landfill site owner or operator. Pursuant to the gas supply agreements, we have the right to use the gas produced at each site in return for payment of a royalty fee to the landfill owner or operator. Royalty mechanisms vary from site to site, but are based on a percentage of the revenue received in respect of a site.

The following table provides an overview of royalty amounts due to landfill owners and operators for the quarters and the nine months ended March 31, 2017 and 2018:

	Quarter ended March 31,		**Nine months ended March 31,**	
	2017	**2018**	**2017**	**2018**
(in thousands of £)				
Royalties due to landfill gas site owners and operators.........	1,849	1,859	4,568	5,295
(as a percentage of turnover)				
Royalties due to landfill gas site owners and operators.........	21.6%	22.5%	20.6%	22.0%

Whilst landfill gas revenues have reduced in the quarter ended March 31, 2018 compared with the comparative quarter in the previous year, the amount of royalties' payable and the average royalty percentage rate for the portfolio have both increased, reflecting variations in the output mix across the sites within the portfolio.

The amount of royalties' payable in the nine months ended March 31, 2018 has increased when compared to the previous year primarily as a result of the increase in landfill gas revenues. The average royalty percentage rate for the portfolio has also increased between the respective periods reflecting variations in the output mix across the sites within the portfolio.

Results of Operations

Comparison of the quarter ended March 31, 2018 and the quarter ended March 31, 2017

The following table details the results of operations for the quarter ended March 31, 2018 compared to the quarter ended March 31, 2017.

	Quarter ended March 31,		
(in thousands of £)	**2017**	**2018**	**Change (%)**
Group turnover	**34,106**	**35,492**	**4.1**
Biomass Business	25,561	27,203	6.4
Landfill Gas Business	8,545	8,289	(3.0)
Cost of sales	(12,138)	(12,967)	(6.8)
Gross profit	**21,968**	**22,525**	**2.5**
Administrative expenses	(11,357)	(11,818)	(4.1)
Other operating income	-	85	-
Group operating profit	**10,611**	**10,792**	**1.7**
Share of operating profit in joint venture	306	649	112.1
Total operating profit: group and share of joint venture	**10,917**	**11,441**	**4.8**
Interest receivable and similar income	7	49	600.0
Interest payable and similar charges	(6,162)	(5,920)	3.9
Profit on ordinary activities before taxation	**4,762**	**5,570**	**17.0**
Tax on profit on ordinary activities	(1,123)	(1,141)	(1.6)
Profit for the period	**3,639**	**4,429**	**21.7**

Group Turnover

Group turnover for the quarter ended March 31, 2018 was £35.5m, an increase of £1.4m, or 4.1%, from £34.1m for the quarter ended March 31, 2017.

Turnover in the Biomass Business for the quarter ended March 31, 2018 was £27.2m, an increase of £1.6m, or 6.4%, from £25.6m for the quarter ended March 31, 2017. The increase in turnover is due to higher output (7.8GWh) together with slightly higher electricity prices, the indexation of the ROC buy-out value and higher year on year triad income.

Turnover in the Landfill Gas Business for the quarter ended March 31, 2018 was £8.3m, a reduction of £0.3m, or 3.0% from £8.6m for the quarter ended March 31, 2017. The reduction in turnover reflects lower output (4.2GWh), offset in part by a higher electricity price, indexation of the ROC buy-out value, and expiry of the NFFO contract in respect of an element of output from the Auchencarroch landfill site in August 2017 which has resulted in this output now being sold under the BG Landfill Gas PPA for a significantly higher price.

Cost of Sales

Cost of sales includes biomass fuel, fossil fuel and sorbent costs, landfill gas royalties, engine maintenance costs and the cost of Fibrophos sales including processing, storage, haulage and commission. For the quarter ended March 31, 2018 cost of sales were £13.0m, an increase of £0.8m, or 6.8%, when compared to the quarter ended March 31, 2017. The increase is attributable to:

- An increase of £0.7m in fuel costs within the Biomass Business, a direct result of the increased output and the variation in the output mix between the two periods, with an increased proportion of output from Ely in the quarter ended March 31, 2018 (with straw being the highest cost biomass fuel on a per MWh basis); and

- An increase in fertilizer processing costs of £0.1m due to the greater sales volumes when compared to the corresponding period.

Administrative Expenses

Administrative expenses for the quarter ended March 31, 2018 were £11.8m, an increase of £0.4m, or 4.1%, from £11.4m for the quarter ended March 31, 2017. Such costs mainly comprise plant maintenance, depreciation, salaries and overheads. The increase reflects a combination of higher business rates charges following the VOA's 2017 revaluation effective from April 2017 and an increase in plant maintenance costs in the Biomass Business.

Share of operating profit from joint venture

The share of operating profit from joint venture in the quarter ended March 31, 2018 was £0.6m, an increase of £0.3m compared with the corresponding quarter in the previous year. The increase reflects the completion of the Ovenden Moor repower project during 2017.

Interest Payable and Similar Charges

Interest payable and similar charges for the quarter ended March 31, 2018 were £5.9m, a reduction of £0.2m from the quarter ended March 31, 2017.

Following shareholder loan repayments of £18.0m in April 2017 and £6.5m in January 2018, shareholder loan interest reduced by £0.2m. The impact of the loan repayment was partly offset by the quarterly capitalization of accrued interest on the shareholder loan.

Tax on profit on ordinary activities

Tax on the profit on ordinary activities for the quarter ended March 31, 2018 is estimated to be a charge of £1.1m, this is in line with the £1.1m charge for the quarter ended March 31, 2017.

Profit for the Period

The profit for the quarter ended March 31, 2018 was £4.4m, compared with a profit of £3.6m for the quarter ended March 31, 2017.

Results of Operations

Comparison of the nine months ended March 31, 2018 and the nine months ended March 31, 2017

The following table details the results of operations for the nine months ended March 31, 2018 compared to the nine months ended March 31, 2017.

	Nine months ended March 31,		
(in thousands of £)	2017	2018	Change (%)
Group turnover	**88,846**	**98,737**	**11.1**
Biomass Business	66,674	74,589	11.9
Landfill Gas Business	22,172	24,148	8.9
Cost of sales	(35,469)	(38,395)	(8.2)
Gross profit	**53,377**	**60,342**	**13.0**
Administrative expenses	(38,789)	(39,606)	(2.1)
Profit on the sale of fixed assets	-	183	-
Other operating income	-	85	-
Group operating profit	**14,588**	**21,004**	**44.0**
Share of operating profit in joint venture	342	1,577	361.1
Total operating profit: group and share of joint venture	**14,930**	**22,581**	**51.2**
Interest receivable and similar income	23	60	160.9
Interest payable and similar charges	(18,413)	(17,973)	2.4
(Loss)/profit on ordinary activities before taxation	**(3,460)**	**4,668**	**234.9**
Tax on (loss)/profit on ordinary activities	278	(991)	(456.5)
(Loss)/profit for the period	**(3,182)**	**3,677**	**215.6**

Group Turnover

Group turnover for the nine months ended March 31, 2018 was £98.7m, an increase of £9.9m, or 11.1%, from £88.8m in the nine months ended March 31, 2017.

Turnover in the Biomass Business for the nine months ended March 31, 2018 was £74.6m, an increase of £7.9m, or 11.9%, from £66.7m in the nine months ended March 31, 2017. This increase is due to:

- ROC Recycle revenue of £4.3m in the nine months ended March 31, 2018 compared to nil in the corresponding period of the previous year;
- an increase in output of 19.9GWh, resulting in an increase in turnover of £2.1m;
- higher electricity prices and indexation of the ROC buy-out value; and
- an increase in fertilizer sales of £0.2m.

Turnover in the Landfill Gas Business for the nine months ended March 31, 2018 was £24.1m, an increase of £2.0m, or 8.9% from £22.1m for the nine months ended March 31, 2017. Whilst output from the Landfill Gas Business decreased between the two periods the revenue impact was more than offset by:

- ROC Recycle revenue of £1.4m in the nine months ended March 31, 2018 compared to nil in the corresponding period of the previous year;
- significantly higher electricity prices received in the quarter ended September 30, 2017, at £42 per MWh compared with £30 per MWh in the comparative quarter;
- annual indexation of the ROC buy-out value; and
- expiry of the NFFO contract in respect of Auchencarroch in August 2017 and the switch to the higher priced RO regime from this point.

Cost of Sales

Cost of sales includes biomass fuel, fossil fuel and sorbent costs, landfill gas royalties, engine maintenance costs and the cost of Fibrophos sales including processing, storage, haulage and commission. For the nine months ended March 31, 2018 cost of sales were £38.4m, an increase of £2.9m, or 8.2%, when compared to the nine months ended March 31, 2017. The increase is attributable to:

- an increase of £1.5m in fuel costs reflecting:
  a) the increase in generation from the Biomass Business of 19.9GWh and thus the additional fuel input required;
  b) the variation in the output profile between the two periods, with an increased proportion of output from Ely in the nine months ended March 31, 2018 (with straw being the highest cost biomass fuel on a per MWh basis); and
  c) the annual price indexation applied within the majority of fuel supply contracts;
- an increase of £0.7m in landfill gas royalties, reflecting higher revenue in the Landfill Gas Business; and
- an increase in fertilizer sales and processing costs of £0.6m, primarily due to an 11% increase in sales volumes when compared to the corresponding period.

Administrative Expenses

Administrative expenses for the nine months ended March 31, 2018 were £39.6, an increase of £0.8m, or 2.1%, from £38.8m for the nine months ended March 31, 2017. Such costs mainly comprise plant maintenance, depreciation, salaries and overheads. The increase mainly reflects higher business rates charges in the Biomass Business following the VOA's 2017 revaluation effective from April 2017 and an increase in staff costs.

Profit on the sale of fixed assets

During July 2017 the Landfill Gas Business novated its spare 3MW connection at United Mines to a third party for consideration of £0.25m. The profit on the sale of the connection amounted to £0.18m.

Interest Payable and Similar Charges

Interest payable and similar charges for the nine months ended March 31, 2018 were £18.0m, a reduction of £0.4m from the nine months ended March 31, 2017, reflecting shareholder loan repayments of £18.0m in April 2017 and £6.5m in January 2018, partially offset by the quarterly capitalization of accrued interest on the shareholder loan.

Tax on (loss)/profit on ordinary activities

Tax on the (loss)/profit on ordinary activities for the nine months ended March 31, 2018 is estimated to be a charge of £1.0m, compared to a credit of £0.3m for the nine months ended March 31, 2017.

(Loss)/profit for the period

The profit for the nine months ended March 31, 2018 was £3.7m, compared with a loss of £3.2m for the nine months ended March 31, 2017.

Melton Renewable Energy UK PLC

Condensed Consolidated Interim Financial Information (unaudited)

9 months ended 31 March 2018

Group statement of income and retained earnings for the 9 months ended 31 March 2018	*Note*	***9 months to 31 March 2018***	*9 months to 31 March 2017*
		£000s	*£000s*
Group turnover	*2*	**98,737**	88,846
Cost of sales		**(67,341)**	(66,725)
Gross profit		**31,396**	22,121
Administrative expenses		**(17,641)**	(17,478)
Profit on sale of fixed assets		**183**	-
Other operating income		**85**	-
Operating profit	*3*	**14,023**	4,643
Share of operating profit in joint venture		**1,577**	342
Total operating profit: group and share of joint venture		**15,600**	4,985
Interest receivable and similar income		**60**	23
Interest payable and similar charges	*5*	**(17,973)**	(18,413)
Loss on ordinary activities before taxation		**(2,313)**	(13,405)
Tax on loss on ordinary activities	*6*	**(624)**	1,045
Loss for the financial period	*17*	**(2,937)**	(12,360)
Accumulated losses brought forward		**(59,885)**	(43,805)
Accumulated losses carried forward	*17*	**(62,822)**	(56,165)

All items dealt with in the statement of income and retained earnings above relate to continuing operations.

The group has no other comprehensive income other than the results above and therefore no separate statement of comprehensive income has been prepared.

Group Balance sheet As at 31 March 2018	*Note*	***As at 31 March 2018 £000s***	*As at 31 March 2017 £000s*
Fixed assets			
Intangible assets	*7*	**91,468**	101,560
Tangible assets	*8*	**132,078**	143,926
Interests in joint venture	*9*	**1,116**	(49)
		224,662	245,437
Current assets			
Stocks	*10*	**12,366**	13,034
Debtors: amounts falling due within one year	*11*	**40,977**	37,220
Cash at bank and in hand		**28,567**	28,285
		81,910	78,539
Creditors: amounts falling due within one year	*12*	**(18,466)**	(15,677)
Net current assets		**63,444**	62,862
Total assets less current liabilities		**288,106**	308,299
Creditors: amounts falling due after more than one year	*13*	**(288,574)**	(299,699)
Provisions for liabilities and charges			
Deferred tax		**(11,484)**	(13,895)
Net liabilities		**(11,952)**	(5,295)
Capital and reserves			
Called up share capital	*16*	**50,870**	50,870
Accumulated losses	*17*	**(62,822)**	(56,165)
Total shareholders' deficit	*18*	**(11,952)**	(5,295)

Group statement of cash flows
For the 9 month period ended 31 March 2018

	Note	***9 months to 31 March 2018 £000s***	*9 months to 31 March 2017 £000s*
Net cash inflow from operating activities	*19*	**31,136**	20,763
Taxation received/(paid)		**56**	(707)
Net cash generated from operating activities		**31,192**	20,056
Cash flow from investing activities			
Payments to acquire tangible assets		**(2,315)**	(2,245)
Payments to acquire intangible assets		**(11)**	-
Proceeds from sale of tangible assets		**250**	-
Interest received		**60**	23
Net cash used in investing activities		**(2,016)**	(2,222)
Cash flow from financing activities			
Repayment of parent company loan		**(6,500)**	-
Loans to associate undertaking		**-**	(355)
Interest paid		**(10,451)**	(10,442)
Net cash used in financing activities		**(16,951)**	(10,797)
Net increase in cash and cash equivalents	*20*	**12,225**	7,037
Cash and cash equivalents at the beginning of the period		**16,342**	21,248
Cash and cash equivalents at the end of the period		**28,567**	28,285

Cash and cash equivalents consists of:

Cash at bank and in hand		**28,567**	28,285

Notes to the financial information (unaudited)

1. Accounting policies

The unaudited condensed consolidated interim financial information is prepared on the going concern basis, under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”).

A summary of the more important accounting policies, which have been applied consistently, are set out below. The condensed consolidated interim financial information does not include all the information or disclosures required in the annual financial statements as they have been prepared for the provision of interim information. The unaudited condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006.

Basis of consolidation

The unaudited condensed consolidated interim financial information include the results of Melton Renewable Energy UK PLC and its subsidiary undertakings (all of which are wholly owned and have uniform accounting policies) using the principles of acquisition accounting such that the results of the subsidiaries are included in the consolidated statement of income and retained earnings from the date of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over who’s operating and financial policies the group exercises a significant influence are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Foreign currencies

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

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

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

Notes to the financial information (unaudited)

1. Accounting policies (continued)

Turnover

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

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

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

Intangible fixed assets and amortization

Purchased goodwill arises on the acquisition of a business and represents the excess of the fair value of the consideration given over the aggregate of the fair value of the separate net assets acquired. Purchased goodwill is capitalized and stated at cost less accumulated amortization and provisions for impairment.

A review for the potential impairment of goodwill is carried out if events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Such impairment reviews are performed in accordance with Section 27 of FRS 102. The carrying value of goodwill is assessed based on the combined discounted future cash flows of the biomass and landfill gas divisions, considered to be one cash generating unit ("CGU") in accordance with FRS 102 paragraph 27.27, as they were acquired as part of a single transaction. Impairments arising are recorded in the statement of income and retained earnings.

Amortization is calculated on a straight line basis over 12 ½ years representing the period from the date of acquisition to March 2027, this being the date to which support under the Renewables Obligation is grandfathered for the biomass power stations and the majority of the landfill gas generation sites. This is the directors' estimate of the period over which benefits may reasonably be expected to accrue from the acquisitions.

Tangible fixed assets

Tangible fixed assets are stated at their cost at acquisition less accumulated depreciation. Additions are based on the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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

Straight line annual rates of depreciation most widely used are:

Freehold land	- nil
Buildings	- over 50 years
Power stations	- over 20 to 25 years
Plant and machinery	- over 4 to 20 years

No depreciation is charged to assets under construction.

Notes to the financial information (unaudited)

1. Accounting policies (continued)

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

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

Impairment

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

Investments

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

Stocks

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

Fuel stocks (MBM and litter) are valued on an average cost basis over 1 to 2 months and provision for unusable litter is reviewed monthly and applied to off-site stock. Fuel stock of straw has been valued at the historical cost per tonne of straw. A provision for unusable straw is identified on an individual stack basis and is reviewed monthly. Stocks are used on a first in, first out ("FIFO") basis by age of straw.

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

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

Deferred tax

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

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

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

Notes to the financial information (unaudited)

1. Accounting policies (continued)

Pension costs

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

Leases

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

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

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

Debt issue costs

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

Financial instruments

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

Financial assets

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

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

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

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

Notes to the financial information (unaudited)

1. **Accounting policies** (continued)

Financial liabilities

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

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

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

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

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

Offsetting

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

2. **Segmental analysis**

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

The tables on pages 40 and 41 present segmental information for the period ended 31 March 2018 and for the comparative period ended 31 March 2017.

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

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

Notes to the financial information (unaudited)

2. **Segmental analysis** (continued)

Segmental statement of income analysis

For 9 months ended 31 March 2018	Biomass	Landfill Gas	Central	Group
	£000s	*£000s*	*£000s*	*£000s*
Turnover	74,569	24,148	20	98,737
Operating costs	(51,366)	(14,335)	(762)	(66,463)
Profit on sale of tangible fixed assets	-	183	-	183
Other operating income	85	-	-	85
Share of operating profit in joint venture	1,577	-	-	1,577
EBITDA	**24,865**	**9,996**	**(742)**	**34,119**
Fixed asset depreciation	(9,157)	(1,721)	(24)	(10,902)
Intangible amortisation and impairments	(3,692)	(3,925)	-	(7,617)
Operating profit/(loss): group and share of joint venture	**12,016**	**4,350**	**(766)**	**15,600**
Unallocated interest charges on borrowings	-	-	-	(17,913)
Profit/(loss) on ordinary activities before taxation	**12,016**	**4,350**	**(766)**	**(2,313)**

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

Notes to the financial information (unaudited)

2. **Segmental analysis** (continued)

Segmental balance sheet analysis

As at 31 March 2018	Biomass	Landfill Gas	Central	Group
	£000s	*£000s*	*£000s*	*£000s*
Non-current assets	158,376	66,217	69	224,662
Current assets	65,067	15,452	1,391	81,910
Total assets	**223,443**	**81,669**	**1,460**	**306,572**
Creditors: falling due within one year	(9,922)	(4,759)	(169)	(14,850)
Unallocated long term debt and accrued interest	-	-	-	(290,284)
Unallocated current and deferred taxation	-	-	-	(13,390)
Total liabilities	**(9,922)**	**(4,759)**	**(169)**	**(318,524)**
Net assets/(liabilities)	**213,521**	**76,910**	**1,291**	**(11,952)**

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

Notes to the financial information (unaudited)

3. Operating profit

Operating profit is stated after charging/(crediting) the following:	***9 months to 31 March 2018 £000s***	*9 months to 31 March 2017 £000s*
Depreciation of owned fixed assets	**10,902**	13,863
Amortisation of goodwill	**7,617**	7,617
Operating lease rentals		
– land and buildings	**268**	244
– other	**230**	216
Inventory recognised as an expense	**30,744**	29,233
Impairment/(write back) of inventory	**97**	(83)

4. Employee information

	9 months to 31 March **2018** ***£000s***	*9 months to 31 March* 2017 *£000s*
Wages and salaries	**8,068**	7,714
Social security costs	**933**	877
Other pension costs	**305**	290
	9,306	8,881

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

	9 months to 31 March 2018	*9 months to 31 March 2017*
Production	**194**	196
Administration	**58**	60
	252	256

Notes to the financial information (unaudited)

5. Interest payable and similar charges

	9 months to 31 March 2018 £000s	*9 months to 31 March 2017 £000s*
Interest payable on senior secured notes	**7,695**	7,695
Amortisation of issue costs of senior secured notes	**828**	768
Interest payable to immediate parent company	**9,263**	9,765
Other interest and charges	**187**	185
	17,973	18,413

6. Tax on loss on ordinary activities

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

7. Intangible assets

As at 31 March 2018

	Goodwill	**Software**	**Total**
	£000s	***£000s***	***£000s***
Cost:			
At 1 July 2017	150,476	53	150,529
Additions	-	11	11
At 31 March 2018	**150,476**	**64**	**150,540**
Accumulated amortisation and impairment:			
On 1 July 2017	51,455	-	51,455
Charge for the period	7,617	-	7,617
At 31 March 2018	**59,072**	**-**	**59,072**
Net book value:			
At 31 March 2018	**91,404**	**64**	**91,468**
At 30 June 2017	99,021	53	99,074

Notes to the financial information (unaudited)

8. Tangible assets

	Freehold land and buildings £000s	*Power stations £000s*	*Plant and machinery £000s*	*Assets under construction £000s*	*Total £000s*
Cost:					
On 1 July 2017	4,557	158,603	26,998	306	190,464
Additions	-	-	471	1,844	2,315
Transfers	-	1,739	70	(1,809)	-
Disposals	-	(222)	(430)	-	(652)
At 31 March 2018	**4,557**	**160,120**	**27,109**	**341**	**192,127**
Accumulated depreciation:					
On 1 July 2017:	165	42,882	6,685	-	49,732
Charge for the period	48	9,090	1,764	-	10,902
Disposals	-	(222)	(363)	-	(585)
At 31 March 2018	**213**	**51,750**	**8,086**	**-**	**60,049**
Net book value:					
At 31 March 2018	**4,344**	**108,370**	**19,023**	**341**	**132,078**
At 30 June 2017	4,392	115,721	20,313	306	140,732

9. Investments

Energy Power Resources Limited, a subsidiary of Melton Renewable Energy UK PLC, owns 50% of the issued share capital of Yorkshire Windpower Limited ("YWP") as part of a 50:50 joint venture with E.ON Climate & Renewables UK Operations Limited. The principal activities of YWP are the ownership, maintenance and operation of two wind farms at Ovenden Moor and Royd Moor in Yorkshire and the sale of the associated electrical generation under a power purchase agreement. YWP is governed and managed through a joint board of directors with decisions in respect of the entity agreed at board level.

	£000s
At 30 June 2017 (audited)	111
Share of profit retained by joint venture	1,005
At 31 March 2018	**1,116**

Notes to the financial information (unaudited)

10. Stocks

	As at 31 March 2018 £000s	*As at 31 March 2017 £000s*
Ash stock	**2,354**	3,016
Fuel, spare parts and consumables	**10,012**	10,018
	12,366	13,034

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

11. Debtors

	As at 31 March 2018 £000s	*As at 31 March 2017 £000s*
Amounts falling due within one year		
Trade debtors	**578**	573
Amounts owed by associate undertakings	**12,792**	11,089
Prepayments and accrued income	**27,525**	25,501
Other debtors	**82**	57
	40,977	37,220

Amounts owed by associate undertakings relate to the groups 50% share of the shareholder loan facility made available to YWP in relation to the re-powering of Ovenden Moor.

On 24 April 2018 the shareholder loan amount due from YWP was converted to equity. The total amount converted, inclusive of shareholder loan interest, was £25.6m, 50% of which was due to the MRE group, and of which £11.0m was principal and £1.8m was accrued interest.

Notes to the financial information (unaudited)

12. Creditors: amounts falling due within one year

	As at 31 March 2018 £000s	*As at 31 March 2017 £000s*
Interest on senior secured notes	**1,710**	1,710
Trade creditors	**1,510**	1,078
Corporation tax	**1,618**	623
Consortium and group relief	**288**	243
Other creditors	**342**	315
Other taxation and social security	**3,057**	2,666
Accruals and deferred income	**9,941**	9,042
	18,466	15,677

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

	As at 31 March 2018 £000s	*As at 31 March 2017 £000s*
Senior secured notes	**149,714**	148,609
Shareholder loan	**138,860**	151,090
	288,574	299,699

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

Notes to the financial information (unaudited)

14. Senior secured notes

	As at 31 March 2018 £000s	*As at 31 March 2017 £000s*
Senior secured notes	**149,714**	148,609

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

Senior secured notes are stated net of unamortized issue costs of £2,286,000 (31 March 2017: £3,391,000). The group and company incurred total issue costs of £5,786,000 in respect of the senior secured notes. These costs together with the interest expense are allocated to the statement of income and retained earnings over the term of the notes. Interest is calculated using the effective interest rate method.

15. Shareholder loan

As at 31 March 2018, the company is in receipt of a shareholder loan from its immediate parent company Eucalyptus Energy Limited. The loan was issued on 30 October 2015 with a principal amount of £127,020,903. The loan is subordinated to the senior secured notes, bears interest at 9% and is repayable no earlier than 1 February 2021. Unpaid accrued interest is charged to the statement of income and retained earnings and added to the principal balance on a quarterly basis. As at 31 March 2018, the total outstanding balance is £138,860,000 (31 March 2017: £151,090,000).

Notes to the financial information (unaudited)

16. Called up share capital

	As at 31 March 2018 £000s	*As at 31 March 2017 £000s*
Authorised		
50,870,000 ordinary shares of £1 each	**50,870**	50,870
Allotted		
50,870,000 ordinary shares of £1 each	**50,870**	50,870

17. Accumulated losses

	Accumulated losses £000s
At 1 July 2017	(59,885)
Loss for the financial period	(2,937)
At 31 March 2018	**(62,822)**

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

18. Reconciliation of movements in shareholders' deficit

	Share capital £000s	***Accumulated losses £000s***	***Total £000s***
On 1 July 2017	50,870	(59,885)	(9,015)
Loss for the financial period	-	(2,937)	(2,937)
At 31 March 2018	**50,870**	**(62,822)**	**(11,952)**

Notes to the financial information (unaudited)

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

	9 months ended 31 March 2018 £000s	*9 months ended 31 March 2017 £000s*
Operating profit	**14,023**	4,643
Depreciation	**10,902**	13,863
Amortisation of goodwill	**7,617**	7,617
Profit on disposal of fixed assets	**(183)**	-
Decrease in stocks	**1,271**	150
Increase in debtors	**(956)**	(4,424)
Decrease in creditors	**(1,538)**	(1,086)
Net cash inflow from operating activities	**31,136**	20,763

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

(a) Movement in net debt

	9 months ended 31 March 2018 £000s	*9 months ended 31 March 2017 £000s*
Increase in cash	**12,225**	7,037
Repayment of shareholder company loan	**6,500**	-
Non cash movements	**(10,090)**	(10,533)
Movement in net debt	**8,635**	(3,496)
Opening net debt	**(268,642)**	(267,918)
Closing net debt	**(260,007)**	(271,414)

Notes to the financial information (unaudited)

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

(b) Analysis of changes in net debt

	At 1 July 2017 £000s	*Cash flow £000s*	*Non-cash movements £000s*	***At 31 March 2018 £000s***
Cash at bank and in hand	16,342	12,225	-	**28,567**
Shareholder company loan				
Debt due after more than one year	(136,098)	6,500	(9,262)	**(138,860)**
Senior secured notes:				
Senior secured notes	(152,000)	-	-	**(152,000)**
Debt issue costs paid	3,114	-	(828)	**2,286**
Total	(268,642)	18,725	(10,090)	**(260,007)**

Non cash movements relating to the shareholder loan represent loan interest for the nine months to 31 March 2018 which has been capitalised and included in the principal balance outstanding.

21. Related party transactions

As at 31 March 2018 £12,792,000 (31 March 2017: £11,089,000) was due from YWP, a 50% joint venture investment, in relation to the groups 50% share of the shareholder loan facility made available to YWP in relation to the re-powering of Ovenden Moor.

On 24 April 2018 the shareholder loan amount due from YWP was converted to equity. The total amount converted, inclusive of shareholder loan interest, was £25.6m, 50% of which was due to the MRE group, and of which £11.0m was principal and £1.8m was accrued interest.

Subsequent to the conversion, a capital reduction was made within YWP. There has been no dilution of the group's overall share in the joint venture.

During the nine months to 31 March 2018 the group received, in the normal course of business, from YWP £45,000 (nine months to 31 March 2017: £7,500) for management and accountancy services. At 31 March 2018 £nil (31 March 2017: £7,500) was outstanding.

22. Pension costs

The group contributes to a defined contribution personal pension schemes for certain qualifying employees. The costs for the period are shown in note 4. Assets of the scheme are held in independently administered funds. Outstanding contributions at 31 March 2018 amounted to £33,446 (31 March 2017: £40,116).

23. Ultimate parent company

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

COMPARISON OF PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

Combined Financial Information to the Condensed Consolidated Interim Financial Information

The table below provides a comparison of the profit/(loss) on ordinary activities before taxation between the Combined Financial Information for the nine months ended March 31, 2018 (the "Combined Results") and the Condensed Consolidated Interim Financial Information for the nine months ended March 31, 2018 (the "Consolidated Results").

	Unaudited Combined 9 months ended 31 March 2018 £000s	*Unaudited Consolidated 9 months ended 31 March 2018 £000s*	*Difference £'000s*
Group turnover	**98,737**	**98,737**	**-**
Cost of sales [(1)]	(38,395)	(67,341)	(28,946)
Gross profit	**60,342**	**31,396**	**(28,946)**
Administrative expenses	(39,606)	(17,641)	21,965
Profit on sale of fixed assets	183	183	-
Other operating income	85	85	-
Group operating profit [(2)]	**21,004**	**14,023**	**(6,981)**
Share of operating profit in joint venture	1,577	1,577	-
Total operating profit: group and share of joint venture	**22,581**	**15,600**	**(6,981)**
Interest receivable and similar income	60	60	-
Interest payable and similar charges	(17,973)	(17,973)	-
Profit/(loss) on ordinary activities before taxation	**4,668**	**(2,313)**	**(6,981)**

Notes

[(1)] In the Consolidated Results the directors have adopted a broader classification of cost of sales to include all plant maintenance, depreciation and operational staff costs. The impact of the reclassification increases cost of sales by £28.9m and decreases administrative expenses by the same amount but has no impact on the group's loss or net assets.

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

i. an increase in fixed asset depreciation of £3.3m resulting from the upwards revaluation of fixed assets to their depreciated replacement cost at the acquisition date of the group by MRE UK PLC; and
ii. an increase in goodwill amortization of £3.7m resulting from the amortization of goodwill arising upon acquisition of the group by MRE UK PLC.