

**Active Energy Group Plc**

(“Active Energy Group” or the “Group” or the “Company” or “AEG”)

**Trading Update: Growth in Trading Volumes and Revenues,  
Improvements in Operating Efficiencies and Reporting Systems,  
Agreement on Improved Financing Terms**

Active Energy Group Plc (AIM: AEG.L), the London Stock Exchange AIM-listed international supplier of industrial wood chip for MDF manufacturing, Biomass for Energy (BFE) fuel products, and forestry management and development services, is pleased to provide a trading update.

The three months ended 30<sup>th</sup> September 2014 (Q3:2014) was the first quarter in which the positive effects of the Group’s restructuring and upgrading of its production facilities subsequent to the acquisition of Nikofeso Holdings Limited were fully reflected in its trading performance at the core business operating level - its wood chip division.

The Board therefore felt it relevant to brief shareholders on the material improvements in the gross margin performance in this area of the business, which it believes will result in a break-even result for the full year to 31 December 2014, despite the logistical difficulties caused by the conflict in the east of Ukraine during the period.

**Operational Highlights:**

- In Q3:2014 the Group produced and traded over 63,000 metric tonnes of wood chip (Q2:2014 54,802 metric tonnes; Q1:2014 46,013 metric tonnes), the bulk of which was shipped from Ukraine via the Black Sea to Turkish MDF manufacturers. This further demonstrates the Group’s steady growth in production and trading volumes.
- The Board had anticipated significantly higher volumes in Q3:2014 and Q4:2014, which would have resulted in its first profitable full year, but due to the cessation of coal and iron ore shipments from the east of the country, the Ukrainian government implemented an importation programme for the first time, which caused port delays for all exporters. This limited export and delivery volumes to well below target levels, which has inevitably resulted in lower revenues and profitability than would otherwise have been achieved. The Board had hoped to make good this shortfall in December, however it now considers this unlikely.
- Relocation of the Ukrainian operations to a dedicated portside facility at Yuzhny Port on the Black Sea has been successfully completed, and the new high-volume wood chipping equipment purchased earlier in the year is now fully operational.
- There is continued strong demand from the Turkish MDF manufacturing sector for wood chip products, and the Board has decided to focus its production resources on this market for the foreseeable future, with new higher volume contracts expected to be concluded by year-end for 2015/2016, deliveries to be subject to logistics capabilities.
- The supply chain and production operations in Ukraine, which are located far from the conflict zone, remain largely unaffected by the political situation in the country. However, as mentioned above, port operations were impacted by the prioritisation of coal imports to ensure adequate fuel supplies for the winter months.
- The Group has improved its financial reporting systems, having appointed a Finance Director and new Financial Controller to oversee all finance functions in-house, whilst simultaneously reducing administration overheads.

### Financial Highlights:

- Revenues in Q3:2014 increased to US\$6.93 million; demonstrating continued growth over previous periods (Q2:2014: US\$5.89 million; Q1:2014: US\$4.88 million); and a substantial advance over the same period in 2013 (Q3:2013 US\$5.3 million).
- Gross Margin per metric tonne in Q3:2014 was some 300% higher than in H1:2014; and Gross Margin on the Black Sea trading operations now exceeds US\$20 per metric tonne.
- Gross Margin in Q3:2014 was US\$1.15 million; a considerable improvement over the H1:2014 figure of circa US\$0.55 million.
- As a result, the business has almost reversed the Adjusted Operating Loss on continued operations in H1:2014 of circa US\$500,000, which the Board expects will enable its core operations to, for the first time, achieve a break-even result for the full year.
- It is important to note that the Group has renegotiated its financing costs from their current level of \$5.00 per metric tonne of delivered product to \$1.00 per metric tonne with effect from 1 March 2015.
- To minimise the impact of currency fluctuations and to clarify its actual financial position, the Board has, in consultation with its auditors, decided that in future the Group's financial reporting will be made in US Dollars (US\$); as the majority of its costs and sales are denominated in US\$.

Commenting on the results, Active Energy Group Plc CEO Richard Spinks, said *"Whilst I am delighted to report that AEG's Q3:2014 trading performance and financial results are very encouraging, they remain modest in terms of our overall aspirations and have been impacted by events outside of our control. We have already fixed the Gross Margin position, and with improved lower financing costs in place from 1<sup>st</sup> March 2015, the additional benefits are obvious. That having been said, it is critical that we improve our volumes of shipments and we are actively working on achieving this, something that I am confident we will achieve in 2015. All else being equal, this bodes well for the Group's overall financial position.*

*The results in Q3:2014 demonstrate that our investment in upgrading our production facilities, and in reducing our administration overheads while improving our financial reporting systems, is already reaping benefits, and together with the other new business activities that we are undertaking, this augurs well for the future of our business. It should be noted that we are utilising the funds from our profitable Ukrainian operations to fund our continued investment in the Group's Canadian forestry joint venture, about which the Board remains very positive.*

*The appointment of Brian Evans-Jones as Finance Director on 1<sup>st</sup> October 2014 has further strengthened our financial management and reporting capabilities, and I thank him for all his efforts."*

Active Energy Group Plc Finance Director Brian Evans-Jones, further commented *"I am pleased that my first communication with AEG's shareholders is to report the Group's first-ever quarterly operating profit.*

*This justifies the Board's decision to focus on our profitable Black Sea trading operations, and proves that the improvements across our entire operations, allied to the significant cost reductions that we have implemented, have taken the Group beyond that vital tipping point into profitability in the quarter and into 2015, subject only to volumes being maintained at least as they are today."*

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### About Active Energy Group:

- Company website: [www.active-energy.com](http://www.active-energy.com)
- Active Energy Group Plc, a London Stock Exchange AIM-listed company (AIM: AEG.L), is an international supplier of industrial wood chip for MDF manufacturing, Biomass for Energy (BFE) wood chip for green energy power generation, Biomass fuel granules and granulating systems, and forestry/timberland development and management services.
- The Group, headquartered in the United Kingdom, currently operates from four locations:
  - Ukraine, where it is the largest producer and exporter of MDF-quality wood chip
  - Spain and Montenegro, from where it supplies BFE Biomass wood chip to European power plants
  - Canada, where it has entered into a landmark forestry joint venture – *KAQUO Forestry & Natural Resources Development Corporation* - with three indigenous Métis Settlements to commercialise in excess of 250,000 hectares of forestry/timberland assets
- The Group is led by a highly experienced and dedicated management team with a proven track record of working in the industries and regions from which its revenues are generated.
- In June 2013, AEG acquired its major trading partner and raised approximately £3.5 million to facilitate future growth and expansion of its international production and shipping facilities.
- In May 2014, the Group announced the formation of a new subsidiary, AEG Pelleting Limited, to commercialise and market a revolutionary new Biomass for Energy (BFE) fuel granulating process that converts sawdust and other industrial and agricultural co-products into valuable fuel granules for use in large-scale power plants and micro-CHP boilers.
- Turkish MDF Market:
  - Turkey is the leading producer of MDF in Europe, producing an estimated 4.3 million m<sup>3</sup> in 2012 in six plants around the country.
  - AEG has developed relationships with all of the major Turkish MDF manufacturers.
  - Currently, circa 69% of the wood chip imported into Turkey comes from across the Atlantic; all of it for production of wood-based panels, primarily MDF.
  - By contrast, wood chip from AEG's port-side production facilities in Ukraine can be transported across the Black Sea in approximately one-tenth of the shipping time from the U.S., Canada and Latin America, which provides manufacturers with substantial cost savings and cashflow advantages, as well as considerably fresher and higher-quality product.
- European Biomass for Energy (BFE) Market:
  - Biomass-fuelled power is expected to account for over 50% of European renewable energy, according to an EU directive on National Renewable Energy Action Plans.
  - EU directives and continued commissioning of new Biomass and CHP power plants in Europe continue to generate additional demand for Biomass fuel, with little visibility on where that fuel will be sourced.
  - The European Renewable Energy Council (EREC) estimates that Biomass-based energy production will grow from 43TWh (Terawatt Hours) in 2005 to 250TWh in 2020.
  - Key NGO bodies such as the European Biomass Association and Eurelectric (the European Union of the Electricity Industry) advocate establishing harmonised, binding sustainability criteria for solid Biomass fuel.