Generating a Low Carbon future

Our Mission

"Growing Infinis into a more diversified renewable and low carbon energy portfolio, focused around our core expertise and strong platform, to create long-term value and a sustainable future"

Half year review

Infinis Energy Group Holdings Limited ("Infinis" or the "Group") publishes its half-year update for the six-month period from 1 April 2022 to 30 September 2022 (the "period").

Overview

The principal activity of the Group is the generation and sale of renewable low carbon electricity.

The Group operates through the following key divisions :

- Captured Landfill Methane (CLM) and Captured Mineral Methane (CMM): supporting the UK de-carbonisation strategy by capturing methane and preventing its release to the atmosphere and utilising this as a fuel source to provide resilient baseload energy generation. Over six million tonnes of CO_2 equivalent are captured each year.
- Power Response (PR): providing flexible generation to grid, to support security of supply during periods of high demand and/or notably low wind generation.

Infinis' strategy is focused and committed to growth and diversification through continued investment in renewable and low carbon sources of electricity generation. Near-term, the strategy is focused on developing the Solar division to scale with three projects (totalling 96MW) in construction and on programme for energisation next summer. Over the same time period, planning decisions are expected on a further four solar projects and the final planning application submission will commence on a further eight projects (totalling 100MW). Battery Energy Storage Systems (BESS) is being added to our flexible generation assets, complementing PR. Our initial project, a 16MW 1.5 hour duration site in Manchester, is due to commence construction shortly.

Group performance

Robust and predictable were words utilised extensively in our reporting through the period of the COVID-19 pandemic. Arguably this has never been more important to ensure security of energy supply in the UK. The power supplied by Infinis CLM and CMM operations provided baseload 24/7 power to the equivalent of more than 340,000 UK households annually.

Due to our forward power price hedging strategy, Infinis is consciously protected to a large degree from price shocks (positive and negative). Over the last six months, Infinis has supplied 495 GWh (six months to 30 September 2021: 559 GWh) of baseload power from captured methane at an average traded power ASP of £66.37/MWh (six months to 30 September 2021: £45.72/MWh), equating to broadly 30% of the day ahead price for the Summer 22 season.

Our PR gross profit of £8.9m (six months to 30 September 2021: £4.9m) has been delivered by an 83% increase in operational run hours versus the period to September 2021. The core performance metric, gross profit per MWh, is consistent year on year at £72.29/MWh.

Our strategic growth ambitions will be delivered over the coming years by re-investing our profits to develop at scale Solar and BESS sites, operating both standalone and co-located. Our FY23 full year outturn anticipates re-investing full year EBITDA into CAPEX.

Financial performance

The Group delivered revenue of £72.8m in the period (six months to September 2021: £73.2m), a decrease of £0.4m compared to the six months to September 2021. Within the PR division Infinis entered a new contract effective from 1 April 2022 under which Infinis no longer directly purchases gas, revenue is therefore recognised net of the gas cost. In the six-month period ended 30 September 2021 gas costs of £7.3m were incurred and included in costs of sales.

EBITDA increased to £38.1m in the period (six months to September 2021: £34.5m) mainly reflecting the improved PR division performance.

Cash generated from operating activities was £31.5m, an increase of £9.3m versus the six months to September 2021 reflecting the improved trading performance and favourable working capital position.

Analysis of divisional performance:

- CLM exported power reduced 10.7% to 463GWh in the period (six months to September 2021: 518GWh). Revenue increased by 4.3% to £59.2m in the period (six months to September 2021: £56.7m). Traded power increased by £7.5m in the period, with an improved traded power ASP of £67.70/MWh (six months to September 2021: £46.20/MWh) more than offsetting the decline in exported power. ROC revenue decreased by £5.9m to £26.3m (six months to September 2021: £32.1m), with the prior period to September 2021 benefitting from £4.2m of prior year (CP19) ROC Recycle revenue.

  Gross profit (excluding depreciation) increased to £34.6m (six months to September 2021: £34.3m), with the increase in revenue being offset with higher royalty and operating costs in the period.

- CMM exported power was 32GWh in the period (six months to September 2021: 41GWh). With a smaller number of sites than CLM, the division is more susceptible to single site issues. During the period lower gas availability on some of the larger sites has led to a 22% reduction in exported power. Revenue for the period was £1.7m (six months to September 2021: £2.2m) reflecting the reduction in exported power. Gross profit (excluding depreciation) reduced by £0.2m to £0.7m.

- PR exported power was 124GWh in the period (six months to September 2021: 68GWh) reflecting the important role that Infinis' PR assets are playing in providing power to the UK market during the challenging time since the onset of the war in Ukraine in February 2022.

  PR generated like-for-like revenue of £11.7m versus £7.0m in the six months to September2021. This resulted in Gross profit (excluding depreciation) for the period of £8.9m (six months to September 2021: profit of £4.9m).

Taxation

The UK corporation tax rate currently remains at 19%, with an increase to 25% from 1 April 2023, as substantively enacted on 24 May 2021. The Company continues to benefit from the enhanced capital allowance regime, and will do, through to the end of the financial year. An extension of these principles from April 2023 onwards is considered important for the broader energy sector, particularly for smaller generators, to continue investment at scale in low carbon energy generation.

In recent weeks, we have seen the enactment of the Electricity Prices Act and the Chancellor's Autumn Statement proposal for a temporary Electricity Generator Levy applicable from 1 January 2023. The latter is separate from the Energy Profits Levy applicable to the oil and gas sector and proposes applying a 45% tax charge to power revenues from nuclear, renewable and biomass generation in excess of a £75/MWh threshold, taking into account all hedging activities and excluding ancillary benefits such as Renewable Obligation Certificates or Capacity Market payments. The levy is not deductible from profits subject to corporation tax but is subject to a £10m annual allowance applicable on a group basis. The levy will be legislated to end by 31 March 2028. Government has indicated that consideration could be given to a reduction in taxable receipts for a measure of exceptional costs and we propose accordingly engaging with HM Treasury to seek to ensure that the costs of fuelled generation from captured methane, to the extent caught by the new levy, are duly recognised and distinguished from other unfuelled renewable operations. As set out in the principal risks and uncertainties below, the impact to the Group in the next two years is not expected to be material on account of the Group's progressive hedging strategy.

Liquidity and capital structure

The Group's financing arrangements are consistent with that set out in the annual report and accounts for the year ended 31 March 2022 of Infinis Energy Group Holdings Limited.

At 30 September 2022, the Group had £24.3m of cash resources (31 March 2022: £62.6m). The Group continues to service its £206.0m secured senior and institutional loans. During the period the majority of the RCF was repaid and a facility of £37.0m (31 March 2022: £1.0m) is available and undrawn at 30 September 2022. Two letters of credit totalling £2.0m Offtakers were issued under the RCF during the period.

Interest rate hedging arrangements exist over £106m (75%) of senior debt with a fixed rate on £65m on institutional debt therefore providing significant earnings and cash flow protection to the rising Bank of England base rate which is now at 3.0%.

The Group paid interest of £7.5m on its shareholder loan in the period (six months to September 2021: £5.0m).

Stakeholders

Under Section 172 of the Companies Act 2006, the Directors of the Company have a duty to promote the success of the Company for the benefit of shareholders as a whole, having regard to a number of broader matters including the likely consequence of decisions for the long term, the need to act fairly between members of the Company, and the Company's wider relationships.

The Directors consider the effect of s172 in all of their decisions and the impact on any of the specified groups. The Directors consider the interests of all stakeholders, including the impact of the Company's activities on the community and environment, when making decisions. The Directors, acting fairly between members, and acting in good faith, consider what is most likely to promote the success of the Company for its stakeholders in the long-term.

The Group's approach to stakeholder engagement is materially unchanged from the detailed assessment set out in the annual report and accounts for the year ended 31 March 2022 of Infinis Energy Group Holdings Limited.

Principal risks and uncertainties

The Company adheres to the risk management policy of the Infinis Group which is headed by Infinis Energy Group Holdings Limited, details of which are set out in the consolidated accounts of that company.

The Infinis Group's approach to risk management is continuous, collaborative and designed to eliminate or manage the risk of failure to achieve the Infinis Group's objectives. The Group Board exercises oversight of the risk management process at Board and Audit Committee meetings.

The Infinis Group has a well-established risk management process that is embedded in management processes, responsibilities and culture. It is proactive and designed to instil the principles of the risk management policy at functional level through a process of self-assessment and certification.

The Infinis Group's risk management process, and the principal risks and uncertainties as at the date of this report are largely consistent with those set out in the Annual report and accounts for the year ended 31 March 2022 of Infinis Energy Group Holdings Limited save for the following:

(i) Energy market intervention

The UK Government continues to focus on means to reduce power prices for consumers pending conclusion of its Review of Market Arrangements (REMA) on which it launched an initial consultation during Summer 2022. The Energy Prices Act was enacted in October 2022 to enable the implementation of the price cap mechanics for consumers and also emergency powers for the Secretary of State to introduce a "cost-plus revenue limit" on generation to address impacts on the energy market which have arisen during 2022. The Energy Prices Act also gives powers to set up a voluntary Contract for Difference (CfD) scheme for older renewable projects not already on CfDs, which was broadly welcomed by the sector subject to pricing levels, indexation and recognition of existing hedging arrangements. Less welcome was the introduction in the Energy Prices Act of new ministerial powers relating to the regulation of the sector and which might challenge the importance of an independent and stable regulatory, policy and governance framework to underpin future investment.

Principal risks and uncertainties (continued)

As above, the Autumn Statement delivered in November 2022 has proposed the Electricity Generator Levy on renewable power revenues not subject to a CfD above a price level of £75/MWh. Infinis does not recognise power prices in excess of that level as exceptional given where markets had traded prior to 1 January 2022. As evidenced by the ASP quoted in this report Infinis would not have made windfall profits on this measure to date and does not expect a material impact from the levy over the next two years on account of the Group's progressive hedging strategy. We await further details from the implemented legislation and, as above, propose to engage with Treasury on the implications of cost factors notably for operations fueled by captured methane, to the extent caught by the new levy.

(ii) Winter 22 Electricity and Gas interruption

National Grid has stated that there is risk of "controlled rolling" and "uncontrolled" area black outs during peak winter months, in particular, during periods of low temperatures and low wind, where the UK is unable to secure imports on the European interconnectors. In such periods, Infinis would not be able to export the power it generates resulting in loss of revenue, and on certain sites additional operating costs may be incurred.

A business wide risk assessment has been completed, concluding that the geographic distribution of the sites and the majority of these sites being on 33KV grid connection (which is expected to be maintained in a blackout) limit any material risk to projected earnings. However, the markets continue to reflect this risk within the winter power price, and therefore it remains important to ensure that all contractual volume obligations to our Offtakers under Power Purchase Agreements can be delivered effectively to avoid the high cost of buying power at market prices.

Gas interruption is a lower risk, with generally high levels of LNG in the UK and across Europe. A milder start to winter has kept the volume high and it is now considered that gas interruption risk is low. Our exposure to gas interruption is largely related to PR and if the risk increases, our commercial strategy will evolve accordingly to minimise financial risk.

(iii) Macroeconomic risk

CPI for the 12 months to September 2022 is 10.1%; Bank of England base rate has been increased to 3.0%; and the US dollar has been at record highs relative to GBP. Solar PV panels, BESS Systems and Oil are largely US dollar denominated with adverse FX movements alone significantly increasing the cost of supply by approximately 15% since March 2022.

CPI annual linked ROC and CfD revenue will continue to provide full coverage of inflation risk on the cost base although FX on oil and embedded in some parts supply, in particular Caterpillar, will add additional operating cost pressure.