infinis

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 2021 to 30 September 2021 (the "period").

Overview

The principal activity of the Group is the generation and sale of renewable low carbon electricity in the UK across the following divisions.

- Captured Landfill Methane ("CLM") and Captured Mineral Methane ("CMM") - Infinis captures methane in a controlled way by applying a suction through a network of installed pipelines and gas wells on 100 landfill sites (CLM division) and on 16 redundant coal mines (CMM division). Modular gas reciprocating engines then use the methane as a fuel source to generate renewable electricity. Methane is around 25 times more harmful than carbon dioxide to the atmosphere. By capturing methane, Infinis is providing an important role in protecting the environment.
- Power Response ("PR") - PR operates from 30 sites, providing highly responsive power connected through the local distribution network using mainly natural gas to power modular gas reciprocating engines. PR supports the UK's growing intermittent renewable power generation, mainly wind and solar, by providing responsive and efficient generation to grid.

The Group's first solar energy park became operational in April 2021. Solar uses interconnected photovoltaic panels to capture and convert solar energy from sunlight into electrical energy, and by using on site invertors the electricity is transmitted through local distribution networks.

Group performance

The six-month period to 30 September 2021 has seen significant price increases in all core energy commodities with power, carbon and gas ending the period broadly three times higher than at March 2021. This combination with projected tight supply margins over the near-term has driven liquid market power pricing to record highs. Strong market pricing creates future value opportunity for Infinis which is captured through the progressive forward hedging commercial strategy. COVID-19 remains a consideration and continues to be proactively managed to ensure the health, safety and wellbeing of our employees, and stakeholders. Most UK COVID-19 restrictions were lifted in July 2021 with the Northampton Head Office re-opening in September 2021 under a new hybrid home and office working model. As global economies re-open, the Group's supply chain has remained robust and by continuing to work closely and proactively with key suppliers the challenges associated with transportation, raw material shortages and associated pricing increases have been managed effectively.

Ofgem published their 'minded to' position on the Significant Code Review ("SCR") in June 2021 with further consultations issued in the period on the Capacity Market. Neither document presents fundamental new risks to the existing revenue streams of the Group with the SCR providing a perceived upside opportunity from its commitment to reduce the costs of access to new grid for future development projects. Outside of energy sector reform, Ofgem and BEIS have political pressure from certain parties to intervene and control energy costs to the consumer although to date the UK Government has rejected any form of market intervention.

Climate change remains on the top of the Global Political Agenda. The COP 26 Climate Summit in November 2021 will increase focus on de-carbonising global industry and in particular the energy sector. As a low carbon generator capturing in excess of 7 million tonnes of methane per annum, Infinis remains well placed to support these goals.

Strategic progress

Infinis' strategy of growing into a more diversified renewable and low carbon energy portfolio continues and is aligned with the de-carbonisation of the UK power sector. The Group has continued to progress developing solar energy parks on existing CLM sites with one site receiving planning consent and a number of others expected to receive consent shortly.

Battery Energy Storage is an evolving strategy, and the Group is in the early stages of a development pipeline with two initial projects targeted to commence construction before the end of the financial year.

Financial performance

The Group delivered revenue of £73.2m in the period (six months to September 2020: £71.5m), an increase of £1.7m (+2.4%) compared to the six months to September 2020, converting to an EBITDA[1] increase of £1.3m to £34.5m.

Cash generated from operating activities was £22.2m, a reduction of £6.5m versus the six months to September 2020 driven by timing of cash receipts. Net cash generated in the period reduced to £3.1m (six months to September 2020: £7.7m).

Analysis of divisional performance:

- CLM exported power was 518GWh in the period (six months to September 2020: 556GWh), with a continued strong performance. Exported power was above management estimates and reduced by 6.8% compared to the prior period. Revenue decreased by 6.1% to £56.7m in the period (six months to September 2020: £60.5m). BSUoS ceased to be an embedded revenue stream at March 2020 with £3.1m reflected in the six months to September 2020. Offsetting this was CP19 ROC recycle revenue of £4.2m which was not recognised in the March 2021 annual financial statements but has now been confirmed by Ofgem. Adjusting for both factors, underlying revenue has declined by 8.5% in line with exported power decline. Gross profit (excluding depreciation) of £34.3m decreased by £1.9m compared to the prior period with ongoing cost control delivering a stable gross profit margin of 60.4% in the period, +0.5%pp above the prior period.
- CMM exported power was 41GWh in the period (six months to September 2020: 57GWh). The 'Banking Strategy' trialled in H1 FY21 was extended to some larger sites in H1 FY22 which has driven the exported power variance. The increased banking of methane in H1 allows an increased number of engines to operate more efficiently at a higher load during the winter months and increases the profitability and cash generation of the division across the full year. Revenue for the period was £2.2m (six months to September 2020: £3.3m) with the £1.1m (-34%) revenue reduction mainly attributable to the reduction in exported power. Gross profit (excluding depreciation) reduced by £0.8m to £0.9m.
- PR exported power was 68GWh in the period (six months to September 2020: 103GWh) reflecting fundamentally different market dynamics compared to the prior period. PR is traded based on the margin spread between power and gas over half hourly period day-ahead and intra-day. Gas pricing over the period to September 2021 averaged 91p/therm compared to 17p/therm. With a high correlation between gas and power prices, this resulted in a grossing up of revenue and cost of sales over the five months to August 2021 with gross margin (the key KPI for the PR division) being in line with budget. In September a combination of high plant unavailability on the UK Grid combined with 3 weeks of very low wind output placed significant constraint on UK supply allowing PR to deliver a record trading month whilst supporting UK Grid supply in this difficult period. This strong September trading drove an increase in gross profit (excluding depreciation) for the period to £4.9m (six months to September 2020: profit of £2.0m). Revenue for the period was £14.3m in the period (six months to September 2020: £7.7m) with margin growth of 65% above revenue growth driven by peak margin days across September.

A change to the main UK corporation tax rate to 25%, announced in the Budget 2021 on 3 March 2021, was substantively enacted on 24 May 2021. Consequently, the Group has adjusted its deferred tax liability to 25% resulting in an £11.5m charge to the Income statement and driven a total tax charge of £10.8m. The Group projects to have no corporate tax liability for FY22 full year and has therefore not made any interim payments on account to HMRC (six months to September 2020: £1.7m).

<u>Liquidity and capital structure</u>

At 30 September 2021, the Group had £13.4m of cash resources (31 March 2021: £10.2m). The Group continues to service its £206.0m secured loans and maintains an undrawn RCF of £39.0m at 30 September 2021.

The Group paid interest of £5.0m on its shareholder loan in the period (six months to September 2020: £8.6m). The Group's financing arrangements are consistent with that set out in the annual report and accounts for the year ended 31 March 2021 of Infinis Energy Group Holdings Limited.

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 2021 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, including consideration of the impact of Covid-19, are materially unchanged from the assessment set out in the Annual report and accounts for the year ended 31 March 2021 of Infinis Energy Group Holdings Limited. These accounts are available on the website www.infinis.com or from the Company Secretary, First Floor, 500 Pavilion Drive, Northampton Business Park, Northampton, NN4 7YJ.

(1) EBITDA is a non-GAAP measure and is defined as earnings before interest, tax, depreciation, amortisation and operating exceptional items