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 2023 to 30 September 2023 (the "period").

Electricity Generation with a positive environmental impact

The principal activity of the Group is the generation and sale of renewable low carbon electricity. The Group operates through the following divisions:

- Captured Methane comprising 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 five million tonnes of CO_2 equivalent are captured each year.

- Flexible Generation (FG): Power Response engines (with Battery energy storage in construction) provides highly responsive power, during periods of low generation and/or high demand on the UK Grid. FG supports the UK's energy transition and growing intermittent renewable power generation, whilst also providing back up capacity in the event of grid demand.

- Solar: Solar energy parks capture sunlight, a renewable and infinite resource, and convert this to electricity.

The strategy of Infinis is focused and committed to growth and diversification through continued investment in renewable, and low carbon, sources of electricity. Over 1GW of new solar and battery projects are being developed which have both an important role in achieving the UK energy transition, while also enhancing shareholder value.

Group performance

Year to date

Entering W23 the UK energy market is well supplied, with a stability not seen for recent years - a sharp contrast to this time last year. Forward electricity market pricing is holding c£100/MWh, with day ahead averaging £84/MWh for S23. The historic delta between summer and winter pricing is much less pronounced. The longer term outlook for power pricing continues to project a market price notably above historical averages through a combination of higher commodity pricing and the removal of piped natural gas from Russia.

Aligned with market conditions, the Group has performed in line with budget for the first six months of the year delivering revenue of £71.4m and EBITDA of £34.5m.

Outlook

The UK Review of Electricity Market Arrangements (REMA) continues with the consultation phase, with a growing consensus that no material progress will be made until after the next general election. The EU has recently published its proposals on Energy market reform, which we hope in some way will influence the outcomes of REMA. The proposal does not aim to change the wholesale market pricing mechanism as was requested by some Member States but introduces measures to reduce the impact of price volatility on consumers and generators. The reform intends to support investment conditions for renewables through long term instruments such as Power Purchase Agreements (PPAs) and Contracts for Difference (CfDs), while also aiming to improve liquidity in forward markets through regional virtual hubs. The proposal does not include any previously discussed more radical plans to remove marginal pricing, a market split for technologies or endorsing an extension of the temporary revenue cap regulation.

Group performance

Outlook (continued)

The CfD remains an important route to market for future Solar projects. With CfD Auction Round 5 (AR5) securing no offshore wind, DESNZ has recently published AR6 guidance with notable increases in the auction cap for key technologies, including a 30% increase for Solar.

With reduced market volatility, Flexible Generation is experiencing lower profits than recent years. While the Group projects to be in line with EBITDA budget of £66.5m for the full year, a downgrade to Flexible Generation profits as a consequence of lower PR market margins and delays experienced in BESS construction, is forecast to be offset by upside from Captured Methane.

Leverage is projected at 2.91x at March 2024, with available cash of £25m.

Financial performance

The Group delivered revenue of £71.4m in the period (six months to September 2022: £72.8m), a decrease of £1.4m compared to the six months to September 2022. EBITDA decreased to £34.5m in the period (six months to September 2022: £38.1m) with growth in CLM (+£0.8m) and Solar (+£2.2m) being offset by lower FG profits (-£6.4m).

Analysis of divisional performance is included on Page 4.

Cash generated from operating activities was £26.1m, a decrease of £5.4m versus the six months to September 2022 of £31.5m.

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:

Captured Methane

- Exported power reduced by 35GWh (7.1%) in line with expectations. Revenue increased by £2.2m in the period to £63.1m driven by an increase in ASP of £14.2/MWh which more than offset the exported power decline. A further increase to ASP has been secured across future periods from the Groups progressive hedging strategy capturing pricing (through to W27) notably above historical averages.
- Gross profit (excluding depreciation) increased by £0.8m to £36.1m with the increase in revenue being offset by marginally higher royalties combined with modest inflationary increases in operating costs.

FG

- Exported power was 70GWh in the period (six months to September 2022: 124GWh) with reduced market volatility and the assets operating more of a traditional daily 5 hour operating profile, focused around peak evening demand. The FY23 Annual Report, noted the one-off 12 hour peak over the prior period (S22) as a consequence of UK markets exporting to EU through the inter-connectors.
- Revenue in the period decreased to £5.8m. Fixed revenue (from Capacity Market and STOR) increased by £0.8m, while Traded revenue reduced by £6.6m which can be attributed broadly equally between the reduction in run hours/exported power and reduction in the average traded revenue/MWh.

Solar

- Exported power increased by 10.0GWh (200%) as 3 new solar sites were commissioned increasing operational solar MWs to 103.5m.
- The largest of these, Litchardon (60.3MWp) and Bishampton (31.7MWp) were budgeted to commence generation in July but were not commissioned until late Q2 resulting in a shortfall of 22 GWH versus budget which equates to missed revenue of £2.6m. Contractual liquidated damages of £1.4m have been agreed for this period and are accrued within Other Income.
- Construction will shortly commence on 20MWp of new solar sites. Construction at Brogborough is delayed until FY25.

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 2023 of Infinis Energy Group Holdings Limited.

At 30 September 2023, the Group had £11.9m of cash resources (March 2023: £22.5m). The Group continues to service its £206.0m secured senior and institutional loans. Available cash (inclusive of undrawn RCF excluding any RCF facility carve outs) is £46.2m (March 2023: £54.5m) with leverage 2.72x (March 2023: 2.6x).

The Bank of England base rate increased to 5.25% in the period (March 2023: 4.25%). Through a combination of interest rate hedging arrangements over £105.8m (75%) of senior debt locking in an all-in cost of 2.75% through to January 2026, and fixed rate on £65.0m on institutional debt through to 2031, earnings and cashflows are well protected from higher interest costs.

The Group paid interest of £5.7m on its shareholder loan in the period (six months to September 2022: £7.5m).

Taxation

The UK corporation tax rate increased from 19% to 25% on 1 April 2023, as substantively enacted on 24 May 2021. Alongside this increase is a favourable enhanced capital allowance regime, through to March 2026, which provides either accelerated relief on long life assets such as Solar or allows full relief in the year of spend for the majority of other assets. With existing and projected CAPEX projections for the coming years, these rules along with existing interest relief, will mitigate the majority of taxable profits.

Finance (No. 2) Act 2023 received Royal Assent on 11 July, bringing into law various tax measures with effect from that date including a new Electricity Generation Levy ("EGL") which will apply to qualifying revenue within the Captured Methane and Solar divisions from 1 January 2023 to 31 March 2028. The EGL will be charged at a rate of 45% on deemed exceptional generation receipts above a benchmark amount of £75 per MWh. Benchmark rate indexes by CPI annually. As a consequence of the Group's progressive forward hedging strategy, along with a falling forward power curve, the Group does not project any EGL for the current year and no significant cumulative liability over the period of the EGL.

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 2023 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 2023.

This report was approved by the Governing Board on 27 November 2023. By order of the Board.