# HARMONY ENERGY INCOME TRUST PLC

# ANNUAL REPORT AND ACCOUNTS

FOR THE PERIOD FROM

1 OCTOBER 2021 TO
31 OCTOBER 2022

Farnham
(20 MW / 40 MWh)

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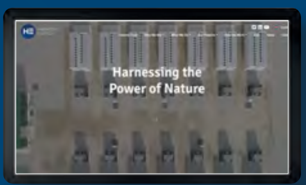
**"We are pleased to be enabling the transition to an environmentally, financially and socially sustainable energy system whilst delivering attractive and sustainable returns to shareholders and ultimately playing a role in saving our planet."**

Norman Crighton, Chair

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# HIGHLIGHTS AND STATISTICS

Harmony Energy Income Trust Plc (the "**Company**") offers Shareholders the opportunity to participate in the transition to net zero by investing in commercial scale battery energy storage systems ("**BESS**") and renewable energy generation projects, with an initial focus on a diversified portfolio of BESS located in Great Britain. As at 31 October 2022, the Company had **six 2-hour duration** BESS projects under construction with a **total capacity of 312.5 MW / 625 MWh**, all targeted to be operating by end 2023. The highlights for the period covered by this report include:

**NAV PER ORDINARY SHARE**

**122.77p**

At 31/10/22

**ORDINARY SHARE PRICE / C SHARE PRICE**

**111.75p / 102.00p***

At 31/10/22

**ADJUSTED NET ASSET VALUE**

**£272.4m^Δ^**

At 31/10/22

**NET ASSET VALUE (ORDINARY SHARES)**

**£257.8m**

At 31/10/22

**NAV GROWTH (ORDINARY SHARES)**

**24.43p / 24.84%**

From IPO to 31/10/22

**TARGET DIVIDEND PER ORDINARY SHARE**

**8p**

Financial year 2023 onwards

*The C Shares were converted to Ordinary Shares on 31 January 2023 and are no longer in issue.

ΔUnder IAS 32 the proceeds raised from the C Share issue are classified as liabilities rather than equity until converted. The Adjusted Net Asset Value shows the NAV of the Company with these proceeds shown as equity rather than as a liability in the financial statements, as is the presentation following conversion of the C Shares on 31 January 2023.

As at the close of business on 22 February 2023, the latest practicable date prior to the publication of this document, the Ordinary Share price was 123.00p. As at 31 January 2023 the NAV was 125.50p per Ordinary Share.

Farnham
(20 MW / 40 MWh)

# PORTFOLIO COMPOSITION

## AS AT THE DATE OF THIS REPORT

**1 PILLSWOOD**
98 MW / 196 MWH
STATUS: OPERATIONAL

**2 BROADDITCH**
11 MW / 22 MWH
TARGET COD: Q1 2023
STATUS: UNDER CONSTRUCTION

**3 FARNHAM**
20 MW / 40 MWH
TARGET COD: Q2 2023
STATUS: UNDER CONSTRUCTION

**4 RUSHOLME**
35 MW / 70 MWH
TARGET COD: Q3 2023
STATUS: UNDER CONSTRUCTION

**5 BUMPERS**
99 MW / 198 MWH
TARGET COD: Q3 2023
STATUS: UNDER CONSTRUCTION

**6 LITTLE RAITH**
49.5 MW / 99 MWH
TARGET COD: Q4 2023
STATUS: UNDER CONSTRUCTION

**7 WORMALD GREEN***
33 MW / 66 MWH
TARGET COD: Q1 2024
STATUS: UNDER CONSTRUCTION

**8 HAWTHORN PIT***
49.9 MW / 99.8 MWH
TARGET COD: Q2 2024
STATUS: UNDER CONSTRUCTION

**9 RYE COMMON***
99 MW / 198 MWH
TARGET COD: Q4 2024
STATUS: SHOVEL READY

- OPERATIONAL/ENERGISED ASSETS (98 MW/196 MWH)
- UNDER CONSTRUCTION ASSETS (297.4 MW / 594 MWH)
- SHOVEL READY ASSETS (99 MW / 198 MWH)

"COD" COMMERCIAL OPERATIONS DATE


* Acquired by the Company post-reporting period.

# PROJECT PROGRESS

## PILLSWOOD
98 MW / 196 MWh — OPERATIONAL

## RUSHOLME
35 MW / 70 MWh — TARGET COD: Q3 2023

## BROADDITCH
11 MW / 22 MWh — TARGET COD: Q1 2023

## BUMPERS
99 MW / 198 MWh — TARGET COD: Q3 2023

## FARNHAM
20 MW / 40 MWh — TARGET COD: Q2 2023

## LITTLE RAITH
49.5 MW / 99 MWh — TARGET COD: Q4 2023

"COD" Commercial Operations Date.

# CHAIR'S STATEMENT

**NORMAN CRIGHTON**
CHAIR

AFTER AN ACTIVE FIRST YEAR OF PROJECT ACQUISITIONS AND NAV GROWTH, THE COMPANY IS NOW PROGRESSING THE PORTFOLIO THROUGH CONSTRUCTION AND INTO OPERATIONS, WITH 312 MW/625 MWH DUE TO ENERGISE BY THE END OF 2023. WE LOOK FORWARD TO CONTINUING TO DELIVER ON TARGET SHAREHOLDER RETURNS AS WELL AS OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE AMBITIONS.

It gives me great pleasure to present, on behalf of the board of directors (the "**Board**"), the annual report for Harmony Energy Income Trust plc ("**HEIT**" or the "**Company**") relating to our first financial period ending 31 October 2022.

The Company has had a productive first full year as a listed company, with multiple BESS project acquisitions and strong NAV growth. The £210 million gross proceeds successfully raised at Initial Public Offering ("**IPO**") in November 2021 were immediately committed to the acquisition and construction of the Company's first five BESS projects, and a £60 million debt facility secured (and hedged) with NatWest in June 2022 allowed the Company to acquire and begin construction of a sixth BESS project. Total capacity of the portfolio acquired and under construction as at the end of the reporting period was therefore 312.5 MW / 625 MWh.

Progress in the first financial period was achieved despite the volatility and uncertainty caused by the war in Ukraine. This aggression by Russia led to huge increases in gas prices, electricity bills in the UK increasing by a multiple of their previous levels and unprecedented volatility in electricity pricing. The Company also had to navigate the consequences of the UK Government's "mini budget" in September which caused market turmoil and negatively impacted our capital raise launched in that period. However, the capital raise via a C Share issue in October 2022 was supported by a number of our Shareholders which meant that the Company was still able, post-reporting period, to acquire the project rights to a further three BESS projects, taking the total capacity of the portfolio to 494.4 MW / 988.8 MWh. This support was vital in continuing the growth plans of the Company, increasing diversification of suppliers and improving liquidity for all Shareholders. Board members have supported the Company by purchasing shares at IPO, during the market turmoil following the UK Government's "mini-budget" and as part of the C Share issue.

The GB BESS market has enjoyed record-breaking levels of revenues during the reporting period, driven by high gas pricing and volatility in electricity wholesale markets. The Company's model of building 2-hour duration projects means it is well placed to take advantage of this strong revenue earning environment, whilst also providing National Grid ESO with additional tools to manage network stability and to avoid blackouts.

Despite the high revenue environment, supply chain issues and grid connection delays have contributed to a lower-than-expected number of new GB BESS projects being commissioned in GB during 2022, and the total GB fleet size remains below National Grid's Net Zero targets. It was therefore pleasing that, in relation to the Company's portfolio, the Pillswood project – the Company's first project and largest (by MWh) in Europe – was energised in November ahead of schedule.

The Company's exclusive rights to an identified large pipeline of BESS projects means we are well placed to continue growing the portfolio at pace over the near-term.

The success of our acquisition activity so far was made possible by our Shareholders who supported us at IPO and then again with the C Share issue. We thank Shareholders for recognising the strong underlying business case for HEIT despite the recent challenging environment in the wider equity and bond markets.

## NAV AND OPERATING RESULTS

During the reporting period, NAV per Ordinary Share increased from 98.34p to 122.77p, representing 24.8 per cent. growth. The valuation of the C Shares, having only commenced dealing two weeks prior to the end of the reporting period, was static at 98.45p per C Share. The C Shares have since converted into Ordinary Shares, which were admitted to trading on 31 January 2023.

Since IPO the market price for the Ordinary Shares has traded positively. It reached a high of 121.00p per share before the UK Government's "mini-budget". Although it closed at 111.75p per share at the end of the reporting period following the "mini-budget", this was up 11.75 per cent. from the IPO price. The Board was pleased that the Ordinary Shares enjoyed prolonged periods of trading at a premium to NAV, showing strong support from its Shareholders. As more of our assets begin commercial operations during 2023, we look forward to reporting on operating performance and continuing our open dialogue with Shareholders in relation to the portfolio.

Since the period end the NAV per Ordinary Share has increased further to 125.50p as at 31 January 2023, the latest valuation date prior to the publication of this document.

# CHAIR'S STATEMENT **CONTINUED**

## DIVIDEND

The Board declared and paid dividends totalling 2p per share in relation to the reporting period, with 1p per Ordinary Share paid in July 2022 and a further 1p per Ordinary Share paid in December 2022. This was in line with the dividend policy announced at IPO, which also states that the Company intends to declare and pay 8p per Ordinary Share per annum for the next financial year onwards, with 2p per Ordinary Share targeted to be paid in each of March, June, September and December. With projects moving into operations against a backdrop of strong market fundamentals and an ongoing high revenue environment during which the majority of our initial portfolio is due to complete construction, the Board has additional confidence that such dividend payments will be well covered.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

BESS projects are essential to underpin the transition to a low-carbon, secure and affordable GB energy system. This crucial infrastructure class also provides critical stability services which enable National Grid ESO to efficiently manage a greater proportion of renewable Wind and Solar generation on the GB network. As such, the Net Zero transition is a core theme underpinning the Company's investment policy. In addition to this, the Board has ambitions to meet and even exceed the highest standards of sustainable business practices. Consideration of ESG risks and opportunities sits at the heart of the Company's (and the Investment Adviser's) decision making both at project-and corporate level.

During the Company's initial reporting period, the Company has been proactive in understanding and designing appropriate monitoring and reporting frameworks and processes. We are proud to have qualified for the LSE's Green Economy Mark as well as become a signatory to the United Nations Principles for Responsible Investing ("**UN PRI**"). The Board and Investment Adviser have jointly undertaken a materiality assessment, identifying relevant ESG-related issues with support from independent ESG advisors. We have drafted and adopted a supplier code of conduct; engaged with suppliers, investors and other stakeholders to conduct gap analysis against the TCFD and TNFD frameworks, and with this report, have started to disclose in line with these frameworks on a voluntary basis. In relation to UN PRI specifically, the Company intends to participate in its first voluntary reporting period in 2023 and publish the first transparency report in the 2024 reporting cycle. Please see the dedicated ESG section of this report for more details.

In addition to the varied and multiple ESG activities and initiatives which have been and/or will be undertaken as part of our reporting framework described above, the Board pledged to create an "ESG Fund" once the assets of the Company exceeded £250m. The ESG Fund is designed to support various environmental and social initiatives. The increase in Company NAV during the reporting period means that the qualifying threshold for accruals in relation to the ESG Fund has now passed, and the Board look forward to deciding how best to deploy the ESG Fund in upcoming ESG Committee meetings.

## OTHER ISSUES

The Directors firmly believe that greater diversity in the board room leads to better decision making and therefore higher returns for our Shareholders. Fortunately, your Board meets the various recommendations issued by the FTSE Women Leaders Review and the Parker Review for gender and ethnic diversity. However, the Board has even greater and, I would argue more important, diversity within its ranks: the diversity of social background; of education; of skills; of work experience, and of lived experience. The diversity of gender and ethnicity is a happy coincidence of constructing a Board with these broader attributes. Ultimately, I believe that corporate boards should comprise the best people for the job and can confirm to Shareholders that for your Board these people are in place.

Investment trusts are different from operating companies. We do not have CEOs or CFOs which the FCA mentions in their recommendation for positive diversity on boards. In our Prospectus, we laid out the reasons why the Board chose not to appoint a Senior Independent Director ("**SID**"), one of the roles that the FCA believes should count towards diversity targets. If a board is functioning correctly then there should be no need for a SID. The Directors of HEIT are strong, knowledgeable, professional individuals who would not hesitate to provide challenge. It is the Chairman's role to foster a culture where independence of directors helps them serve as effective stewards of Shareholder wealth. This is how all boards should operate.

# CHAIR'S STATEMENT **CONTINUED**

Pillswood (98 MW / 196 MWh)

We believe that for investment trusts a much more important role than SID is filled by the Chair of the Audit Committee and strongly believe that the FCA should recognise the unusual position of investment trusts and include the Chair of Audit role when looking at diversity issues. Your Board's Chair of Audit role is held by a capable female Director.

The role of proxy advisors has increased over the past few years. This, I believe, is to the detriment of the investment trust industry as a whole. Proxy advisors seem to have little understanding of how investment trusts and their boards operate, and unfortunately their decision-making at project and at corporate level remains opaque and final.

The use of a proxy advisor is understandable for an index fund charging minimal fees, but those shareholders are in a minority, or non-existent, in most investment trusts which are actively managed and where investment manager decisions are scrutinised by active boards. While there are good reasons why a board and an investment manager may make certain decisions, there is no forum or opportunity for boards to explain the rationale and circumstances for particular decisions to proxy advisors, who may then advise a vote against particular resolutions.

The Investment Adviser, your Board and I are respectful of the workload of our institutional investors. But we remain available to all our Shareholders – institutional and retail – who may wish to discuss an issue or ask a question.

In the coming weeks I shall be meeting any institutional investors who would like to see me and I encourage as many Shareholders as possible to attend our first AGM.

## OUTLOOK

As already mentioned, post-reporting period the Company completed construction and commenced commercial operations on our Pillswood project, which (at 98 MW / 196 MWh) constitutes a significant proportion of the Company's portfolio. In addition, the Company has successfully extended its debt facility and has also commenced construction in relation to two of the three projects acquired in December 2022.

The balance of the Company's projects under construction continue to progress well despite some minor supply chain disruption and grid connection delays, and we continue to target 312.5 MW being fully operational by the end of 2023. These events set the theme for 2023, being a focus on portfolio construction and supplier diversification as we move into revenue generation and performance reporting.

The Company plans to host its inaugural AGM on 22 March 2023. Further details will be provided in the Notice of AGM.

**NORMAN CRIGHTON**
Chair

22 February 2023

# INVESTMENT ADVISER'S REPORT

PAUL MASON
MANAGING DIRECTOR

MAX SLADE
COMMERCIAL DIRECTOR

PETER KAVANAGH
INVESTMENT DIRECTOR

JAMES RITCHIE-BLAND
INVESTMENT DIRECTOR

HARMONY ENERGY ADVISORS LIMITED ("**HEAL**" OR "**THE INVESTMENT ADVISER**"), IS PROUD TO DELIVER ITS INAUGURAL INVESTMENT ADVISER'S REPORT IN RELATION TO THE COMPANY.

## £210m initial market capitalisation

IPO in November 2021 – initial market capitalisation of £210m

## £60m debt facility

Debt facility of £60m secured from NatWest (fully committed and hedged but not yet drawn)

## 100% IPO funds committed

IPO funds fully committed immediately following IPO

## 687.5 MW pipeline

At 31 October 2022, Company had a right of first refusal ("**ROFR**") over Harmony Energy Limited's pipeline of near-term projects

## 312.5 MW / 625 MWH portfolio

At 31 October 2022, the Company had six 2-hour duration BESS projects totalling 312.5 MW / 625 MWh. All projects were "under construction" during the reporting period

## £14.7m C Share issue

Company raised an additional £14.7m in October 2022 by way of the issue of 14.7m C Shares. Proceeds committed against identified pipeline projects

## +24.8% NAV increase

Ordinary Share NAV increased 24.8% since IPO due to strong market fundamentals and revaluation of assets through construction lifecycle

INVESTMENT ADVISER'S REPORT **CONTINUED**

# PORTFOLIO UPDATE

## PORTFOLIO OVERVIEW

The initial five BESS projects, namely Pillswood, Broadditch, Farnham, Rusholme and Little Raith, were acquired from Harmony Energy Limited upon IPO, with a total capacity of 213.5 MW / 427 MWh. At the time of acquisition, Pillswood was categorised as "under construction" and the other four were "shovel ready" (as defined in the Prospectus).

During the reporting period, the Company successfully progressed the projects to "under construction". In addition, the Company acquired a sixth project (known as "Bumpers") from Harmony Energy Limited which was categorised as "under construction", taking the total portfolio to 312.5 MW / 625 MWh. Key project information is depicted in the map graphic on page 2.

All projects owned by the Company during the reporting period are contracted with Tesla under an engineering, procurement and construction contract ("**EPC**"), to supply and install 2-hour duration BESS. These projects also benefit from operation and maintenance ("**O&M**") and revenue optimisation contracts with Tesla, using Tesla's Autobidder software platform.

### Post-reporting period:

The Company's Pillswood project was energised ahead of schedule in November 2022, as Europe's largest BESS project (by MWh), and is divided into two operational phases. Phase 1 commenced operations in November 2022, with Phase 2 commencing shortly after in December 2022. As at the date of publication of this report, both phases are fully active across wholesale markets and also participating in ancillary services and is performing in line with expectations.

Phase 2 of this project was originally planned to commence commercial operations in March 2023. The Investment Adviser is therefore very pleased to have delivered this project ahead of schedule for the benefit of the Company, enabling a significant portion of the Company's portfolio to commence operations as early as possible and in time for winter 2022/23.

The construction of the balance of the portfolio has progressed well and Tesla Megapack battery modules are already on site at the Broadditch, Farnham and Rusholme projects.

"PILLSWOOD OPERATING AHEAD OF SCHEDULE."

On 14 December 2022, the Company completed the acquisition of the three "pipeline" projects from Harmony Energy Limited (totalling 181.9 MW) depicted in the map on page 2, and the Company has moved quickly to execute BESS supply and installation contracts in relation to the Wormald Green and Hawthorn Pit projects (as described further below). This takes the total portfolio of the Company as at the date of publication of this report to 494.4 MW / 988.8 MWh, broken down as:

- 98 MW / 196 MWh operational / energised;
- 297.4 MW / 594.8 MWh under construction; and
- 99 MW / 198 MWh "shovel ready".*

**As previously disclosed, 49.5 MW of this project is held within a single project SPV and is awaiting final planning consent.*


Pillswood (98 MW / 196 MWh)

# INVESTMENT ADVISER'S REPORT **CONTINUED**

## CAPACITY MARKET

The Capacity Market auctions which took place in February 2022 saw record prices in both the T-1 and T-4 auction. Due to an undersupply of qualifying generation plant, the T-1 auction cleared at its maximum amount of £75/kW/yr. The T-4 auction cleared at a record high level of £30.59/kW/yr as some of the older generation plant (coal and nuclear) failed to take contracts.

The Company's Pillswood, Rusholme and Little Raith projects each secured 15-year index-linked contracts (commencing in October 2025) at £30.59 /kW/yr in the T-4 auction (commencing in October 2025). The Company's Farnham and Broadditch projects secured similar length contracts in the T-4 auction 2021 (commencing in October 2024) at a clearing price of £18 /kW/yr. No Company projects participated in the T-1 auction in February 2022.

Post-reporting period, each of the Pillswood, Broadditch, Farnham and Rusholme projects secured T-1 Capacity Market contracts on 14 February 2023 (for delivery from October 2023) at the price of £60/kW/yr, the second highest T-1 price on record. The combined contracts represent a total of £3.65 million of revenue in exchange for services to be delivered between October 2023 and September 2024. The Bumpers project as well as the Company's recently acquired Wormald Green and Hawthorn Pit projects, have each pre-qualified for the T-4 auction at the time of writing expected to take place on 21/22 February 2023 (for delivery from October 2026). The Company's Rye Common project is anticipated to pre-qualify for the 2024 auctions, once final planning for Phase 2 has been obtained.

Capacity Market revenue can be earned simultaneously with normal daily BESS operating strategies without disruption. This is known as "stacking" revenues.

## SUPPLIER DIVERSIFICATION

Tesla are currently engaged (as BESS supplier, contractor, maintenance provider revenue optimiser) on six of the Company's projects. The Board and the Investment Adviser continue to value Tesla's technology and expertise, as well as the commercial relationship between them and the Company. However, in order to reduce supplier concentration risk (and retain competitive tension amongst suppliers for future tenders), the Investment Adviser ran a full tender and contracting process during Q4 2022 to source an additional BESS supplier and maintenance provider. On 17 February 2023, the Company procured (via relevant Project SPV's) the engagement of Envision Energy International Trading Limited and Envision Energy International UK Limited (on a joint and several basis) ("**Envision**") to supply and install its ENS-L7300-3300 battery energy storage system in relation to the Wormald Green and Hawthorn Pit projects. Envision Energy International UK Limited is also contracted under long term maintenance and services agreements in relation to these two projects.

Key factors which influenced the Company's choice include:

1) Envision's ability to commit to required BESS delivery dates which maintains project energisation timetables;
2) Envision have their own cell manufacturing facilities, located in multiple jurisdictions (including UK). This diversifies key component supply chain risk;
3) Envision's track record in installing 2-hour duration BESS in various jurisdictions; and
4) Envision's sustainability initiatives, including its plans for its manufacturing facilities at Ordos, China (which will manufacture the BESS for the Company) to be powered by 100% renewable energy.

The Investment Adviser has also appointed a balance-of-plant contractor to proceed with the construction of the Wormald Green and Hawthorn Pit projects.

In addition, the Investment Adviser is in the final stages of procuring revenue optimisation services for these projects and expects to finalise that appointment shortly. Going forward, the Investment Adviser (on behalf of the Company) will continue dialogue with existing and potential suppliers to ensure enduring quality of service and cost competitiveness.

**Chart 1: Summary of T-4 CM contracts awarded**

<table>
<tr><th>T-4 Contracts</th><th>2024-25</th><th>2025-26</th><th>2026-27</th><th>2027-28</th><th>2028-29</th><th>2029-30</th><th>2030-31</th><th>2031-32</th><th>2032-33</th><th>2033-34</th><th>2034-35</th><th>2035-36</th><th>2036-37</th><th>2037-38</th><th>2038-39</th><th>2039-40</th><th>2040-41</th></tr>
<tr><td>Pillswood</td><td></td><td colspan="15">15 year (index-linked) contract worth £906,688 per year</td><td></td></tr>
<tr><td>Broadditch</td><td colspan="15">15 year (index-linked) contract worth £96,264 per year</td><td></td><td></td></tr>
<tr><td>Farnham</td><td colspan="15">15 year (index-linked) contract worth £175,032 per year</td><td></td><td></td></tr>
<tr><td>Rusholme</td><td></td><td colspan="15">15 year (index-linked) contract worth £320,553 per year</td><td></td></tr>
<tr><td>Little Raith</td><td></td><td colspan="15">15 year (index-linked) contract worth £453,344 per year</td><td></td></tr>
<tr><td>Bumpers</td><td></td><td></td><td colspan="15">Prequalified for Auction</td></tr>
<tr><td>Hawthorn Pit</td><td></td><td></td><td colspan="15">Prequalified for Auction</td></tr>
<tr><td>Wormald Green</td><td></td><td></td><td colspan="15">Prequalified for Auction</td></tr>
<tr><td>Rye Common</td><td></td><td></td><td colspan="15">Prequalified for Auction</td></tr>
</table>

Source: Harmony Energy Advisors Limited

# INVESTMENT ADVISER'S REPORT **CONTINUED**

## PIPELINE

The need for substantial amounts of energy storage on the GB network is widely understood. The ROFR enables the Company to have an exclusive right of first refusal over Harmony Energy Limited's substantial and well-developed pipeline of projects.

The ROFR granted the Company an exclusive right to acquire up to 1 GW of BESS projects from Harmony Energy Limited. The Company has, as at the date of publication of this report, exercised this right in relation to 494.4 MW, leaving at least 505.6 MW still to be acquired. The Investment Adviser has identified more than 400 MW of BESS projects (subject to the ROFR) located in GB which have the potential to be acquired over the next 12 months, and could commence operations over the next 36 months.

"IDENTIFIED PIPELINE OF AT LEAST 400 MW SUBJECT TO EXCLUSIVE RIGHT OF FIRST REFUSAL"

As demonstrated through the delivery of the Company's Pillswood project, a strong track record of delivering sites on time will allow the Company to grow its portfolio fast and establish one of the largest portfolios in the sector.

The Company is not restricted to only acquiring BESS projects from Harmony Energy Limited, and will continue to monitor the wider market for third party opportunities.

## DEBT FINANCE SECURED

During the reporting period, on 21 June 2022, the Company completed the contracting of a debt finance facility of up to £60 million from NatWest plc (the "**Initial Facility**") with an accordion for an additional £50 million. It is a five-year facility with an initial margin of 300bps over SONIA, rising over time to a maximum of 375bps by year 5. The SONIA element is fully hedged and the Company is therefore not exposed to interest rate movements in relation to this facility. The facility is "interest-only" for the first three years.

Post-reporting period, on 17 February 2023, the Company successfully negotiated an amendment and restatement of the Initial Facility with NatWest (together with its syndicate partner, Coöperatieve Rabobank U.A. ("**Rabobank**")) to give effect to the previously agreed accordion. This amendment and restatement gives the Company access to an additional £50 million of debt, taking the total facility to £110 million (the "**Enlarged Facility**"). The Enlarged Facility is on the same terms as the Initial Facility concerning margin and term, and is expected to be fully hedged.

In addition, the Company, NatWest and Rabobank have agreed a revolving credit facility of up to £20 million which will be a 3-year facility with a margin of 325bps over SONIA ("**RCF**").

The debt facilities described above provide the Company with funding certainty to complete construction of the Bumpers, Wormald Green and Hawthorn Pit projects. The Company only expects to draw down on the Enlarged Facility over time upon meeting certain construction milestones and does not expect to be fully drawn until at least mid-2024, if at all, at which point the Company expects to have eight projects in operation with total capacity of ca.400MW / 800MWh. Once drawn the Enlarged Facility can be repaid at any time with limited cost to the Company.

"DEBT FACILITIES PROVIDE FUNDING CERTAINTY FOR THE CONSTRUCTION OF THREE BESS PROJECTS"

## ASSET MANAGEMENT AND OPTIMISATION OF ENERGY STORAGE

During the reporting period, and in preparation for the Company having operational assets from 2023, the Investment Adviser has expanded its experienced asset management team. This team will further enhance the technical and financial performance of each BESS project by working closely with the Company revenue optimisation supplier(s). By internally benchmarking portfolio and market performance, the asset management team will scrutinise and query performance data to ensure the best strategies are taken. Warranty, asset availability and state of health metrics are carefully monitored on the Investment Adviser's proprietary "Harmonise" platform to ensure the Company's portfolio remain at peak performance while also establishing an evidence-based risk management system.

The Investment Adviser (via its asset management team) also oversees the maintenance of each BESS project by our contractor(s), ensuring all scheduled maintenance (including capacity tests) is adhered to and that any reactive issues are dealt with as quickly as possible.

INVESTMENT ADVISER'S REPORT **CONTINUED**

# MARKET COMMENTARY

## OVERVIEW

The UK has a legally binding target to achieve "net zero" by 2050 and has enshrined in law a target to reduce emissions by 78 per cent. by 2035 compared to 1990 levels. UK renewable generation, primarily wind and solar, has more than quadrupled over the past 10 years, with wind farms contributing a record 26.8 per cent. of the country's electricity in 2022. This growth has been supported by government subsidies, such as the Feed-In Tariff, the Contracts for Difference (CfD) scheme and the Renewable Obligation but has also been driven by rapid reductions in cost that have allowed some renewable energy projects to start competing in a subsidy-free environment. National Grid ESO predicts that by 2038 we will have a minimum of 150 GW of renewables (Falling Short Scenario) and a possible maximum of 249 GW (Consumer Transformation Scenario).

"ENERGY STORAGE IS AN ESSENTIAL TOOL TO BALANCE SUPPLY AND DEMAND OF ELECTRICITY EFFICIENTLY"

Wind and solar are known as "intermittent" generation assets as their output relies on prevailing weather conditions and can therefore be difficult to forecast accurately ahead of delivery. Supply and demand of electricity must be balanced and matched in real-time in order to maintain the stability of the electricity system. Responsibility for this balancing lies with National Grid ESO as the system operator. This role has become more challenging and costly, with a key contributing factor being the proportion of intermittent generation being used to meet electricity demand.

Energy storage is an essential tool to balance supply and demand of electricity efficiently. National Grid ESO predicts that, in order to enable the growth of renewables, between 22 GW (Falling Short Scenario) and 50 GW+ (Leading the Way Scenario) of energy storage is required by 2050. As at the date of this report, there is currently c.4.8 GW of storage in GB, of which c.2 GW constitutes utility-scale BESS. Therefore, there continues to be a large growth opportunity for BESS in GB.

Despite this opportunity, storage and renewable projects are facing long waits of "15 years plus" for new grid connections, and this is contributing to slower-than-forecast deployment of BESS. The Company is well placed to navigate this challenge, benefitting from a large and exclusive pipeline of 2-hour duration BESS projects which already benefit from grid connection offers capable of energisation over the next 36 months.

**Chart 2: FES 2022 - Battery Deployment Scenarios**

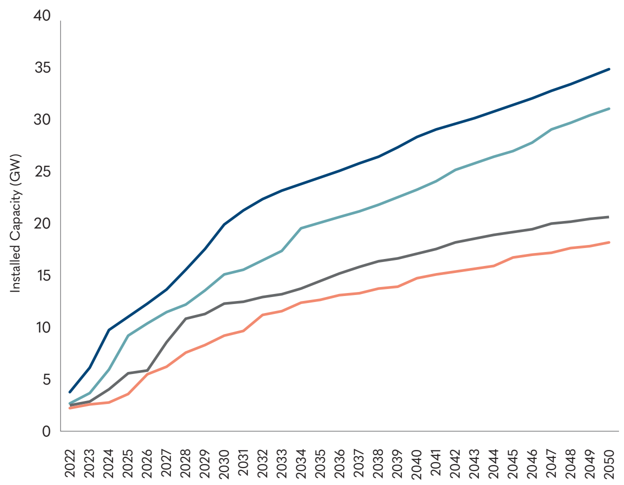
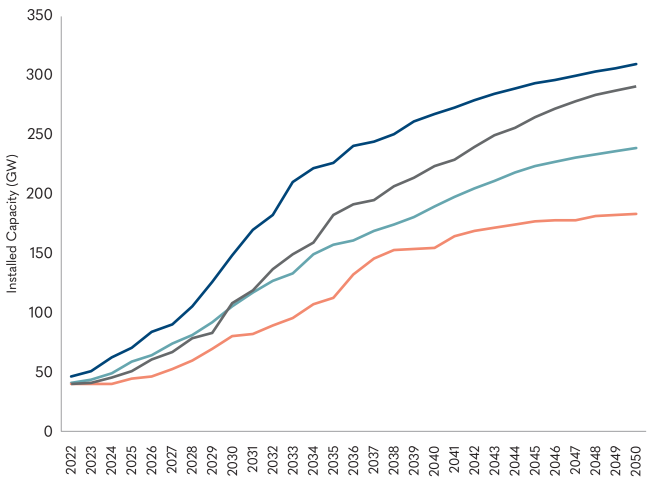



**Chart 3: FES 2022 - Solar + Wind Deployment Scenarios**

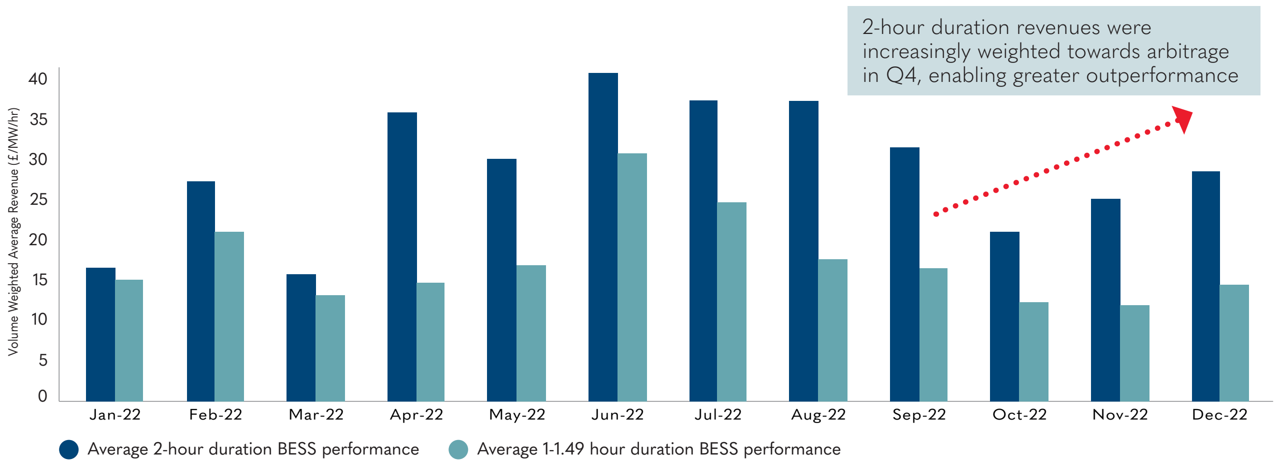



Leading The Way · Consumer Transformation · System Transformation · Falling Short

Source: National Grid ESO's Future Energy Scenarios (July 2022)

## BESS REVENUES DURING 2022

**Chart 4: Average BESS Revenues During 2022 – 2-Hour Duration Outperforms**




Source: Harmony Energy Advisors Limited (using data from Modo Energy)

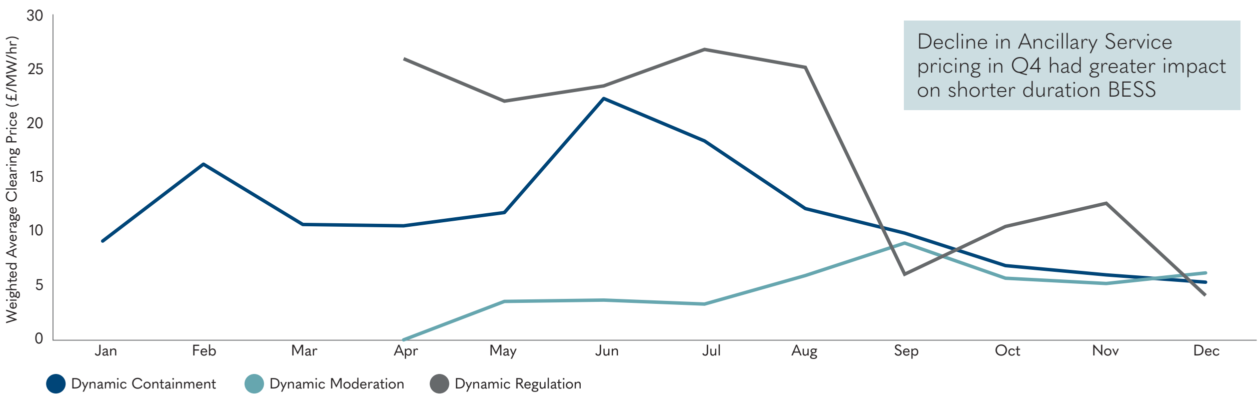
## 2-HOUR DURATION BESS OUTPERFORMED SHORTER DURATION BESS (ON A £/MW BASIS) IN EVERY MONTH OF 2022

The chart above shows relative performance of 2-hour duration BESS relative to shorter duration BESS during 2022.

The principal revenue strategies employed by 2-hour duration BESS during this time were Ancillary Services and trading power on the day-ahead wholesale markets, often employing both strategies during the same day.

2022 saw record prices achieved in some Ancillary Services. Dynamic Containment ("**DC**") pricing was strong until September and April saw the launch of a new Ancillary Service, Dynamic Regulation ("**DR**"), which is more suited to longer duration batteries. 2-hour BESS was therefore able to benefit most from this new service.

**Chart 5: 2022 Ancillary Service Pricing (selected markets)**

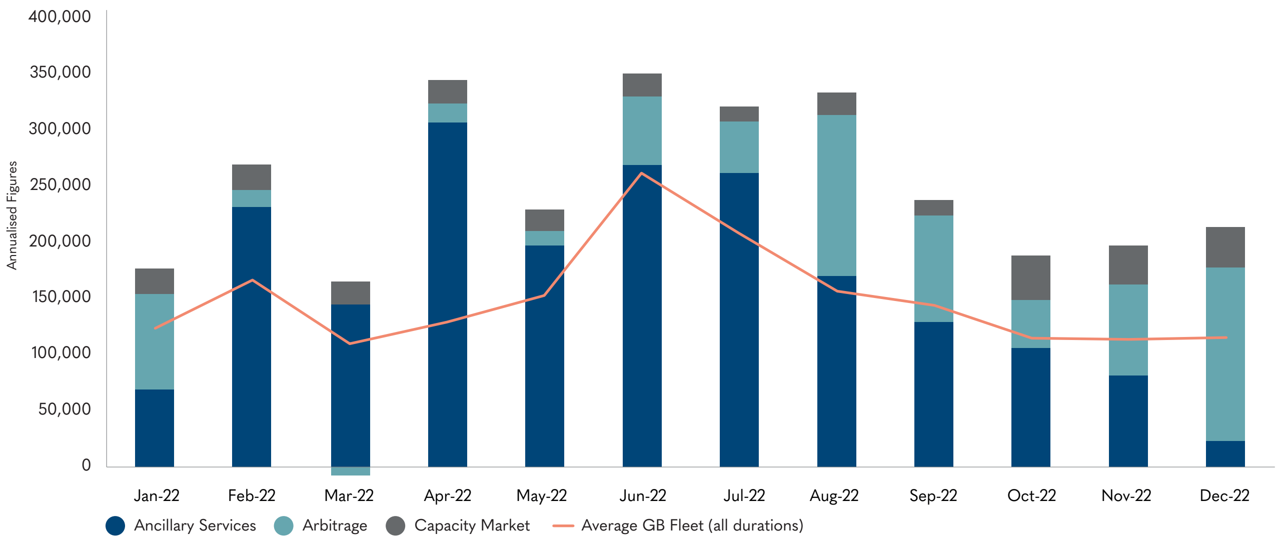



Source: Harmony Energy Advisors Limited (using data from Modo Energy)

The chart above indicates that such pricing has reduced as these relatively shallow markets have become saturated as more batteries came online.

The chart below shows how 2-hour duration BESS revenues were increasingly weighted towards arbitrage (being wholesale trading and/or balancing mechanism ("**BM**")) towards the end of 2022 coinciding with the decline in Ancillary Service pricing.

**Chart 6: Average 2hr duration BESS Revenue Stack (£/MW Annualised)**




Source: Harmony Energy Advisors Limited (using data from Modo Energy)

It is therefore expected that BESS revenues in 2023 will be more weighted towards wholesale trading – a trend which stands to benefit 2-hour duration BESS, in contrast to shorter-duration BESS which are less able to complement ancillary services with wholesale trading.

## BALANCING MECHANISM

Whilst potential spreads in the BM often exceed those available in wholesale markets, the value available to BESS has to date been limited by relatively high "skip rates" – instances where National Grid ESO ignores BESS in favour of larger, more expensive power stations. Recent months have seen an increase in BESS BM activity and revenues. The Investment Adviser expects this to be an increasingly important revenue stream in 2023 and beyond.

## FUTURE MARKET OUTLOOK

The next year will see the Ancillary Service markets (which has primarily driven BESS revenue in 2022) become increasingly saturated, which should in turn translate to downward pressure on clearing prices. Flexibility and agility in optimisation strategies will continue to be key. Constantly assessing and comparing opportunities across markets will drive long-term value. Having strong forecasting capabilities and knowing when to operate in the wholesale or balancing service markets will allow revenue optimisers to differentiate themselves.

As Ancillary Service markets are expected to remain saturated, BESS revenues will become increasingly dominated by wholesale markets and BM.

The Company goes into 2023 with the largest portfolio of 2-hour batteries in the UK listed market (by MWh) and is therefore well placed to capitalise on this trend.

# ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT

## BACKGROUND

The Alternative Investment Fund Manager's Directive (the "**AIFMD**") came into force on 22 July 2013. The objective of the AIFMD was to ensure a common regulatory regime for funds marketed in or into the EU which are not regulated under the UCITS regime. This was primarily for investors' protection and also to enable European regulators to obtain adequate information in relation to funds being marketed in or into the EU to assist their monitoring and control of systemic risk issues.

JTC Global AIFM Solutions Limited (the "**AIFM**") is a non-EU Alternative Investment Fund Manager (a "**Non-EU AIFM**"), the Company is a non-EU Alternative Investment Fund (a "**Non-EU AIF**") and the Company is currently marketed only into the UK. Although the AIFM is a non-EU AIFM, so the depositary rules in Article 21 of the AIFMD do not apply, the transparency requirements of Articles 22 (Annual report) and 23 (Disclosure to investors) of the AIFMD do apply to the AIFM and therefore to the Company. In compliance with those articles, the following information is provided to the Company's shareholders by the AIFM.

### 1. Material Changes in the Disclosures to Investors

During the financial period under review, there were no material changes to the information required to be made available to investors before they invest in the Company under Article 23 of the AIFMD from that information set out in the Company's prospectus dated 15 October, 2021, save as disclosed below and in certain sections of the annual financial report, those being the Chair's Statement, Investment Adviser's Report, the sections headed "Environmental, Social and Governance", "Principal Risks and Uncertainties", "Section 172 Statement" and "Viability and Going Concern", the Directors' Report and Corporate Governance Report and note 25 to the financial statements.

### 2. Risks and Risk Management Policy

The current principal risks facing the Company and the main features of the risk management systems employed by AIFM and the Company to manage those risks are set out in the section headed "Principal Risks and Uncertainties", the Directors' Report, the Report of the Audit and Risk Committee and in note 16 to the financial statements.

### 3. Leverage and borrowing

The Company is entitled to employ leverage in accordance with its investment policy and as set out in the Company's prospectus. However, as at the balance sheet date and the date of this report, the Company had not drawn down any debt. There were no changes in the Company's borrowing powers and policies.

### 4. Environmental, Social and Governance ("ESG") Issues

Because the AIFM is a non-EU AIFM and the Company is not marketed into the EEA, the AIFM is not required to comply with Regulation (EU) 2019/2099 on Sustainability-Related Disclosures in the Financial Services Sector (the "**SFDR**"). However, details of the Company's and its advisers' ESG objectives and actions taken are reported on in the section of this annual financial report entitled "Environmental, Social and Governance."

As a member of the JTC group of Companies, the AIFM's ultimate beneficial owner and controlling party is JTC Plc, a Jersey-incorporated company whose shares have been admitted to the Official List of the UK's Financial Conduct Authority and to trading on the London Stock Exchange's Main Market for Listed Securities (mnemonic JTC LN, LEI 213800DVUG4KLF2ASK33). In the conduct of its own affairs, the AIFM is committed to best practice in relation to ESG matters and has therefore adopted JTC Plc's ESG framework (the "**ESG Framework**") and a copy of the ESG Framework can be viewed on the AIFM's website at https://www.jtcgroup.com/wp-content/themes/jtcgroup/dist/img/review-2019/pdfs/esg.pdf. During 2021 JTC achieved its goal of becoming carbon neutral through a partnership with Carbon Footprint Limited, a leading independent accreditation firm. Working with Carbon Footprint, JTC makes a demonstrable difference through a series of carbon offsetting projects, including helping to fund projects that offset carbon emissions, including a UK tree planting scheme which also supports emission reductions in the Brazilian rainforest by helping preserve parts of the forest and supporting local communities there, the installation and operation of a solar power project in two villages in India, which feeds in to the power generated to the state grid in India and native tree planting in the Great Rift Valley In Kenya, which is also linked to further support for emission reductions in the Brazilian rainforest. In 2022 JTC extended UN PRI signatory status to the whole group, covering over 1,400 people in 30 offices spanning 20 jurisdictions. JTC also reports under TCFD and under the SASB framework.

The AIFM and Harmony Energy Advisors Limited ("**HEAL**") as the Company's alternative investment fund manager and investment adviser respectively do consider ESG matters in their respective capacities, as explained in the Company's prospectus dated 15 October 2021, a copy of which can be found at https://www.jtcgroup.com/services/funds/aifmd/harmony-energy-income-trust-plc/.

Since the publication of those documents, the AIFM, HEAL and the Company have continued to enhance their collective approach to ESG matters and detailed reporting on (a) enhancements made to each party's policies, procedures and operational practices and (b) our collective future intentions and aspirations is included in the Investment Adviser's Report, the section headed "Environmental, Social and Governance" and the Section 172 Statement.

# ALTERNATIVE INVESTMENT FUND MANAGERS REPORT **CONTINUED**

The AIFM also has a comprehensive risk matrix (the "**Matrix**"), which is used to identify, monitor and manage material risks to which the Company is exposed, including ESG and sustainability risks, the latter being an environmental, social or governance event or condition that, if it occurred, could cause an actual or a potential material negative impact on the value of an investment. We also consider sustainability factors, those being environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

The AIFM is also cognisant of the announcement published by H.M. Treasury in the UK of its intention to make mandatory by 2025 disclosures aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures, with a significant proportion of disclosures mandatory by 2023. The AIFM also notes the roadmap and interim report of the UK's Joint Government-Regulator TCFD Taskforce published by H.M. Treasury on 9 November, 2020. The AIFM continues to monitor developments and intends to comply with the UK's regime to the extent either mandatory or desirable as a matter of best practice.

## 5. Remuneration of the AIFM's Directors and Employees

During the period under review, no separate remuneration was paid by the AIFM to its executive directors, Graham Taylor, Gregory Kok, James Tracey and Kobus Cronje, because they were all employees of the JTC group of companies, of which the AIFM forms part. During the period under review, Messrs Kok and Tracey resigned as directors of the AIFM and Mr Kobus Cronje was appointed as a director. Matthew Tostevin is a non-executive director and is paid a fixed fee of £10,000 for acting as a director, attendance at all quarterly Board meetings and work performed as a director of the Company in the ordinary course of business. Subject to the prior approval of the Board of directors on each occasion, Mr Tostevin is paid additional remuneration on a time spent basis for services rendered to the Company which are not in the ordinary course of business. Other than the directors, the AIFM has no employees. The Company has no agreement to pay any carried interest to the AIFM. During the period under review, the AIFM paid £10,000 in fixed fees and £42,936.25 in variable remuneration to its directors.

## 6. Remuneration of the AIFM Payable by the Company

The AIFM was during the period under review paid a fee of 0.03% per annum of the equity capital raised by the Company, subject to a minimum of £30,000 per annum, such fee being payable quarterly in arrears. Subsequent secondary issues of shares of the Company in the primary market are supported on a time spent basis, subject to a cap of £10,000 per each such issue. Other significant non-routine work may be agreed between the AIFM and the Company from time to time and charged for on a time spent basis. The total fees paid to the AIFM during the period under review were £61,573.37.

**JTC Global AIFM Solutions Limited**
Alternative Investment Fund Manager
22 February, 2023

INVESTMENT ADVISER'S REPORT **CONTINUED**

# STRATEGIC REPORT

## INVESTMENT OBJECTIVE

The Company's investment objective is to provide an attractive and sustainable level of income returns, with the potential for capital growth, by investing in commercial scale energy storage and renewable energy generation projects, with an initial focus on a diversified portfolio of BESS located in Great Britain.

## INVESTMENT POLICY

The Company seeks to achieve its investment objective through investment in energy storage and complementary renewable energy generation assets, with an initial focus on commercial scale BESS located in diverse locations across Great Britain.

The Company may invest in operational, under construction or "shovel ready" projects, and may also provide development finance to pipeline projects.

Projects which are "shovel ready" will have in place:

- a completed lease, lease option or agreement for lease in relation to the land upon which that project is situated;
- planning permission enabling the construction of a suitable project on that land (subject to any amendments to reflect final technical specifications);
- an industry standard grid connection offer from a DNO or TSO; and
- a BESS supply & installation contract with material terms agreed with a reputable counterparty.

Projects which are "under construction" will in addition, have in place:

- an agreed lease on satisfactory terms;
- an accepted industry standard grid connection offer from a DNO or TSO, and having made at least one milestone payment; and
- a fully executed BESS supply & installation contract with a reputable counterparty.

Projects which are "operational" will, in addition, have in place:

- completed lease on satisfactory terms in relation to the land upon which that project is situated;
- an executed grid connection agreement with a DNO; and
- satisfactory completion of relevant commissioning tests.

The investment restrictions as set out in the Company's Prospectus remain applicable, with the Company prohibited (inter alia) from making investments in fossil fuel assets.

## BUSINESS MODEL

The Company expects to invest predominantly in projects at the "shovel ready" stage since these are likely to provide the most attractive returns. The Company may also invest in projects at the "operational" and "under construction" stage where such projects are available for acquisition in line with the Company's investment policy.

The Company seeks to further enhance the efficacy of its portfolio by targeting 2-hour duration storage technologies.

The Company has the unfettered ability to purchase qualifying assets from any seller. The Investment Adviser is experienced in sourcing and advising on BESS transactions and continues to evaluate potential opportunities on the open market. However, at least over the near-term, it is anticipated that the Company will continue to take advantage of its exclusive arrangements described below.

The Company benefits from exclusive access to a well-developed pipeline of BESS projects at various stages of development in Great Britain. Each project within this pipeline is controlled by Harmony Energy Limited either solely or in conjunction with its joint venture partner, Ritchie-Bland Energy (number 2) Ltd ("**RBE**") (the "**Sellers**"). This exclusivity is in the form of:

a) a right of first refusal ("**ROFR**") to acquire up to 1 GW of BESS projects from the Sellers. The Company has, as at the date of publication of this report, exercised this right in relation to 494.4 MW, leaving at least 505.6 MW still capable of acquisition under the ROFR; and

b) a right of first offer ("**ROFO**") in relation to (i) BESS projects once the 1 GW ROFR threshold has been reached; (ii) BESS projects co-located with solar photovoltaics ("**PV**"); or (iii) stand-alone solar PV projects.

The processes under which these rights are exercised is set out in a pipeline agreement dated 14 October 2021 and entered into between the Company and the Sellers (the "**Pipeline Agreement**"). The Sellers have an obligation to keep the Company informed as to the development progress of potential projects. This provides the Company with an element of transparency which, in turn, allows the Company a reasonable level of certainty around funding timetable and portfolio growth planning.

The terms of the Pipeline Agreement provide that the Sellers shall be prohibited from selling any qualifying projects to any other party during the term of the agreement without first offering them to the Company. Upon any projects becoming "shovel ready", the Sellers shall give notice of such status to the Company.

The Company will then be entitled to either (i) if the ROFR applies, acquire the relevant project pursuant to the terms of the pro forma share purchase agreement (and subject to a valuation calculated using a minimum discount rate); or (ii) if the ROFO applies, make an offer to the Sellers pursuant to the Pro Forma Share Purchase Agreement.

All acquisitions are subject to satisfactory external due diligence, independent valuation and Board approval.

The Company will continue to target BESS projects with 2-hour duration capability. As demonstrated in the "Market Commentary" section, the Investment Adviser believes that 2-hour duration BESS offers potential for revenue outperformance relative to a shorter-duration BESS across a range of market conditions.

## DIVIDEND POLICY

On the basis of factors including market conditions and financial performance, following the end of the reporting period ended 31 October 2022, the Company is targeting a dividend yield, by reference to the issue price at IPO of 100p per Ordinary Share, of 8 per cent. per annum payable quarterly in March, June, September and December of each year. All dividends will be in the form of interim dividends. The target dividend yield of 8 per cent. applies only to the Ordinary Shares and not to any tranche of C Shares prior to conversion into Ordinary Shares. The Board reserves the right to retain within a revenue reserve a proportion of the Company's net income in any financial year, such reserve then being available at the Board's absolute discretion for subsequent distribution to Shareholders, subject to the requirements of any applicable regulations.

The dividend policy will be subject to Shareholder vote at the 2023 Annual General Meeting.

LITTLE RAITH (49.5 MW / 99 MWh)

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE

## INTRODUCTION AND CONTEXT

### THE COMPANY'S ASSETS SIT AT THE HEART OF THE TRANSITION TO NET ZERO.

The BESS projects the Company invests in provide critical balancing services to the GB electricity grid network, underpinning energy security and enabling the replacement of coal and gas power stations with renewable power sources as society transitions to a Net Zero future. The more renewable energy that is connected, the more important it is to develop energy storage solutions to manage the intermittent nature of many sources of renewable power. The contribution made by the Company's investments in storing clean energy will facilitate the creation of a sustainable energy system, helping to decarbonise the UK's energy networks and economy.

Consideration of ESG risks and opportunities sits at the heart of the Company's and the Investment Adviser's decision making – at the initial investment stage as well as in the development and execution of asset management strategies. For example, opportunities are taken to restore nature on site, to ensure the benefits of investing in sites are not diminished by negative environmental or biodiversity impacts.

"BATTERY STORAGE TECHNOLOGY HAS A KEY PART TO PLAY IN ENSURING HOMES AND BUSINESSES CAN BE POWERED BY GREEN ENERGY, EVEN WHEN THE SUN ISN'T SHINING OR THE WIND HAS STOPPED BLOWING."

**What is battery storage? – National Grid Group**

**Figure 1 – UN Sustainable Development Goal ("SDG") Contributions**


"FLEXIBLE TECHNOLOGIES LIKE BATTERIES WILL FORM PART OF THE UK'S SMARTER ELECTRICITY GRID, SUPPORTING THE INTEGRATION OF MORE LOW-CARBON POWER, HEAT AND TRANSPORT TECHNOLOGIES, WHICH IT IS ESTIMATED COULD SAVE THE UK ENERGY SYSTEM UP TO £40 BILLION BY 2050."

**Battery storage boost to power greener electricity grid – GOV.UK (www.gov.uk)**

# GOVERNANCE AND ESG COMMITTEE

## THE BOARD SETS THE COMPANY'S ESG STRATEGY AND HAS OVERSIGHT OF ESG RELATED MATTERS, WHICH ARE DISCUSSED AT EACH QUARTERLY BOARD MEETING. WRITTEN UPDATES ARE PROVIDED AS PART OF THE INVESTMENT ADVISER'S REPORTING TO THE BOARD.

The Company has an ESG policy, adopted at IPO. Climate and nature-related risks and opportunities are addressed at Board, Committee and management level. Nature and climate-related risks are integrated into the Company's risk register, which is reviewed quarterly by the Board. Risks are assigned owners within the Investment Adviser to ensure accountability.

A dedicated ESG Committee of the Board met twice in the period to consider ESG topics in greater detail. The ESG Committee makes recommendations to the Board in defining the Company's ESG strategy and reviews the practices and initiatives of the Company relating to ESG matters, ensuring they remain effective and up to date.

The Audit and Risk Committee meets at least three times a year and its duties include ongoing robust assessment of the risk management and internal controls of the Company, including ESG and climate-related risks. Further information on the Company's risk management process is set out in the Principal Risks and Uncertainties section and the Report of the Audit and Risk Committee.

The Company's Management Engagement Committee is responsible for monitoring and reviewing the performance of the Company's key service providers and meets at least annually to conduct a review. That review includes monitoring of ESG policy status and achievement of policy goals by service providers.

The Investment Adviser appointed a Head of Corporate Governance in February 2022, with responsibility for putting into practice the ESG strategy defined by the Board of the Company. During the period, the Investment Adviser introduced an ESG Committee within its organisation, which regularly considers ESG-related matters and has allocated resources to a number of initiatives during the year, including a fund for sponsorship of community events.

### MEMBERSHIPS

On admission to the London Stock Exchange, the Company was awarded the LSE's Green Economy Mark, recognising it as a significant contributor to the transition to a zero-carbon economy.

Since IPO, the Company has become a signatory to the UN PRI and is working to integrate these principles into its investment decision-making and ownership practices. The Board received training from the PRI team during the year and appointed external consultants to undertake a gap analysis and identify improvement recommendations. The Company intends to participate in its first voluntary reporting period in 2023 and publish the first transparency report in the 2024 reporting cycle. All Directors are members of Chapter Zero, a community of non-executive directors leading climate action in the boardroom.

The Investment Adviser is a supporter of the Task Force on Climate-related Financial Disclosures ("**TCFD**") and a member of the Forum for the Task Force on Nature-related Financial Disclosures ("**TNFD**"). The Company conducted a gap analysis against the TCFD and TNFD frameworks during the reporting period and with this report has started to disclose in line with these frameworks on a voluntary basis. The Investment Adviser is also a member of Solar Energy UK and the Renewable Energy Association, enabling easier collaboration with peers on issues affecting the renewable energy industry.

### LOOKING AHEAD

Alongside implementation of our ESG strategy we will expand and evolve our reporting, working towards full reporting against the TCFD and TNFD frameworks. In 2023, we will complete climate scenario analysis and work with our suppliers to improve data for our climate and nature reporting, as well as making our first submission under UN PRI. We will also consider the adoption of climate and nature-related targets with both long-term ambitions and interim targets.

We will continue to enhance our approach to responsible investment, integrating ESG deeper into all our processes as we further our knowledge of our supply chain. The Investment Adviser currently incorporates ESG questionnaires into the procurement process, and intends to implement ESG requirements for contractors and service providers to the project SPVs. This will allow the Company to begin to tackle Scope 3 emissions and other supply chain sustainability and governance factors.

The Investment Adviser has plans to further enhance its own ESG capabilities and expand its in-house ESG team. This Team will continue the work already started with the development, delivery and asset management teams of the Investment Adviser, to implement the ESG strategy and develop data collection and reporting protocols.

### MEMBERSHIPS IN 2022

Chapter Zero | London Stock Exchange Green Economy | TNFD | PRI Principles for Responsible Investment | TCFD Task Force on Climate-related Financial Disclosures

ENVIRONMENTAL, SOCIAL AND GOVERNANCE **CONTINUED**

# ESG STRATEGY

## THE COMPANY SEEKS TO ACHIEVE ITS INVESTMENT OBJECTIVE PRIMARILY THROUGH INVESTMENT IN ENERGY STORAGE, WITH A PROHIBITION ON ANY INVESTMENTS IN FOSSIL FUEL ASSETS AS STATED IN ITS INVESTMENT POLICY.

In line with the Company's commitments as a signatory to the UN PRI, consideration of ESG risks and opportunities are embedded into the investment cycle, as demonstrated below. We will continue to enhance the integration of sustainability factors within the investment process through 2023 as we implement our ESG strategy.

**Figure 2 - Approach to responsible investment:**

### INVESTMENT POLICY AND RESTRICTIONS

Responsible investment embedded in Investment Policy

### INVESTMENT SCREENING

Invests in energy storage and renewable generation assets, with a prohibition on investments in fossil fuel assets

### PROJECT DUE DILIGENCE

ESG risks and opportunities assessed as part of the project due diligence process

### SUPPLIER VETTING AND MONITORING

ESG due diligence conducted as part of supplier tender processes

### PROJECT INVESTMENT APPROVAL

ESG issues identified in Investment Adviser recommendations for project investment approvals by the Board.

### MANAGING AND REPORTING

Data collected on key ESG metrics and reported to investors and publicly through the annual and interim reports and the UN PRI submission. Continuous improvement of process and reporting. Impact on habitats and supply chain factors managed.

### END OF INVESTMENT LIFE

Recycling of assets maximised at decommissioning stage

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE **CONTINUED**

The Company and the Investment Adviser have made significant progress on sustainability during the period, setting the framework for and building on the ESG commitments in the Prospectus.

Following IPO we completed a materiality assessment, identifying the most relevant priority areas amongst ESG-related issues. With support from independent sustainability advisors, we engaged with suppliers, investors and other stakeholders and conducted an in-depth market analysis. Our identified priorities, and the related UN Sustainable Development Goals ("**SDGs**"), are set out in figure 1.

Following completion of the materiality assessment, we worked to develop our ESG strategy, identifying areas of potential influence and ways in which we can maximise positive benefits and minimise adverse impacts of our business across our identified priority areas of climate, nature, communities, waste and resources, and human rights and labour. Figure 3 sets out the activities we have identified as offering us the most opportunity for impact across our priority areas. The table highlights the direct influence the Company can have on addressing ESG issues on sites and in offices, as well as the role of the wider supply chain.

**Figure 3 – ESG Influence Potential**

| | Offices | | Sites | | Value Chain | |
|---|---|---|---|---|---|---|
| | Maximise benefits | Minimise impact | Maximise benefits | Minimise impact | Maximise benefits | Minimise impact |
| **Climate** | Set a good example | Reduce emissions of buildings, purchased goods and travel | Accelerate the UK's energy transition through BESS | Offset emissions (neutralisation or compensation) | Contribute to the sustainability transition through suppliers' product portfolio (EV) | Minimise supply chain emissions, focusing on key impact categories (e.g. battery packs) |
| **Nature** | N/A | N/A | Improve biodiversity potential on site (hedge rows, flowers) | Minimise land use change by selecting degraded land | Contribute to nature restoration through suppliers' operations & community projects | Minimise chemical pollution, in particular for raw material extraction (mining) |
| **Communities** | Set a good example and create a healthy and sustainable working environment | N/A | Create local jobs and educate students through on-site visits (higher education) | Engage with local communities to minimise disturbance | Contribute to social development goals e.g. wealth creation, minority rights | Drive for more positive impacts on local populations affected by supply chain operations e.g. relocation, health impacts of pollution |
| **Waste and Resources** | Set a good example | Reduce, reuse and recycle waste | Set a good example | Ensure recycling of BESS components at the end of their life | Encourage suppliers to reduce waste impact across their customer base | Minimise waste creation and use of virgin materials, through product efficiencies and circularity |
| **Societal impacts and employee wellbeing** | Create attractive jobs; promote wellbeing & inclusion in workplace | Mitigate risks (mental health, accidents, discrimination, etc.) | Create construction phase jobs and work with contractors to promote safety and wellbeing on sites | Mitigate the risk of on-site accidents during construction & lifetime | Contribute to reduced poverty by creating well-paid jobs in developing countries | Minimise exposure to the risk of abusive practices in upstream supply chain |

Key: The Company's ESG influence potential (i.e. any benefit or negative impact that the Company can have on its external environment):

● High ● Low

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE **CONTINUED**

For each of the three influence areas (offices, BESS sites and supply chain) we have developed a workstream with actions designed to minimise adverse impacts and maximise benefits of our operations and value chain. The Investment Adviser has been tasked with the implementation of the strategy.

We have identified that our supply chain provides our greatest opportunity for influence on ESG issues. Embedding sustainability in our supply chain may increase the resilience of our business and mitigate risks. Sustainable procurement can also reduce costs through increased efficiency, increased labour productivity and reduced costs of material inputs, energy and transportation.

During the period, we adopted a supplier code of conduct (the "**Code**") which focuses on priority areas identified in materiality assessment. The Code was drafted by reference to key guidance and frameworks such as the UN Global Compact, the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas, the Responsible Business Alliance Code of Conduct, the Universal Declaration on Human Rights and the UK Government Buying Standards, to ensure best practice supply chain requirements were taken into account. Suppliers will be asked to confirm their agreement to the Code in writing and to maintain records of compliance. The Investment Adviser will seek to include contractual rights to audit suppliers to the project SPVs to confirm compliance and the Management Engagement Committee will monitor compliance for key service providers. Supplier commitment to the Code and the number of audits conducted to monitor compliance with the Code will be monitored and reported as ESG metrics.

In 2023, work will be undertaken by the Investment Adviser to map and better understand our supply chain and sourcing of components and to identify particular areas of risk. This work began in 2022 with a number of workshops with Tesla's ESG and Responsible Sourcing Teams to discuss the work they are conducting on supply chain mapping and initiatives.

Longer term, we intend to define supply chain targets with objectives for sustainability. Supplier audits will begin to be conducted, to monitor compliance with the Code. The Management Engagement Committee will assess questions of service providers' progress against ESG goals through the annual questionnaires and evaluation process.

Whilst the supply chain offers the greatest opportunities for driving positive impacts on ESG, the Company has also identified the importance of taking action at company owned sites. This means on BESS sites and in offices used by the Investment Adviser. We have identified below the actions taken during the reporting period in each of our priority areas across offices, sites and the supply chain.

## CLIMATE

The Investment Adviser has implemented initiatives to reduce its environmental impact, including travel policies to restrict the use of flights and encourage rail use. Senior management lead by example, limiting travel by air and driving electric vehicles. An electric vehicle salary sacrifice scheme incentivises use of low-carbon transport modes for all employees and flexible working arrangements reduce the impact of employee commuting. The Investment Adviser's offices use fossil-free heating and electricity for the London office comes from renewable sources.

During the reporting period, the Investment Adviser engaged with Tesla, as a key service provider, to build transparency and discuss what sustainability initiatives are implemented by Tesla to reduce supply chain climate impacts. The Investment Adviser will continue to engage with our contractors to understand how the environmental impact of the construction phase could be reduced, through changes to energy and water usage and waste management practices during construction.

As detailed in the ESG metrics section, we worked with a sustainability consultant to calculate our Scope 1, 2 and 3 emissions for the reporting period, providing a baseline. With no employees or physical offices and no operating projects during the period, the Company had zero Scope 1 and Scope 2 emissions. Scope 3 emissions of 1,879 $tCO_2e$ reflected that the construction and materials emissions for a project will be recognised only once that project is completed and paid for. As there were no operational projects during the period, the emissions were much lower than can be expected in future reporting periods.

### GUIDANCE AND FRAMEWORKS USED IN DRAFTING SUPPLIER CODE OF CONDUCT

HM Government

OECD

Responsible Business Alliance
Advancing Sustainability Globally

UNHCR
The UN Refugee Agency

UN GLOBAL COMPACT

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE **CONTINUED**

## NATURE

We view the potential opportunity to enhance biodiversity at our project sites as a key nature-related opportunity. To reduce the negative biodiversity impacts of site construction, the Company considers and employs methods to provide the highest possible positive biodiversity impact. Each project has a detailed landscaping plan to ensure creation of a positive biodiversity benefit following completion of the construction phase. Specialist independent ecologists are appointed to measure biodiversity net gain at each of our sites, and we target a positive benefit of over 10 per cent. across the portfolio.

We recognise the nature-related risks in our supply chain, including those relating to the mining of minerals used in batteries. We intend to work with our suppliers to ensure they have a plan for addressing nature-related risks, and that progress is made against their plans. During the reporting period, we engaged with the responsible sourcing team at Tesla, as the battery supplier for our projects under construction, to understand their work on areas including protection of forests, biodiversity, water levels and water quality at mine sites. Tesla's approach of direct sourcing from mining companies allows direct engagement with those suppliers and their local communities.

## COMMUNITIES

The Company's Board has agreed the creation of a community fund for each project, which will be calculated on the basis of £100/MW/year, from the start of commercial operations for each project with a minimum value of £5,000 per site per year. Applications for the first fund, for our Pillswood project, will be welcomed from February 2023. We have partnered with BizGive, a platform which links funders with community groups and third sector organisations seeking funding, to administer these funds. Funds will be allocated to initiatives benefitting the local area around each project and aligned with the priority SDGs identified from our materiality assessment. We will report on number of initiatives supported and amounts invested from 2023.

The Company's NAV at 31 October 2022 exceeded £250 million therefore, in line with the commitment in the Prospectus, an additional ESG Fund will be established to support environmental and social initiatives within the wider investment trust and battery storage industries. This fund will have a budget of up to £250,000 per annum, funded from the difference between Board fees and 0.1 per cent. of the Company's NAV, based on the audited accounts for the financial year. In 2023, we will prepare a draft framework for allocation of the funds.

The Investment Adviser engages with the local community from the planning stage of each project, holding public exhibitions and engaging closely with landowners. Following construction, the Investment Adviser intends to facilitate visits from local schools to sites, providing opportunities for children to learn about renewable energy and biodiversity initiatives.

## WASTE AND RESOURCES

Waste from the Investment Adviser's London office is collected by a provider with a zero waste to landfill commitment.

All of the Company's current portfolio employs (or will employ once constructed) lithium iron phosphate ("**LFP**") battery technology instead of nickel manganese cobalt ("**NMC**") technology. NMC is the prevalent chemistry amongst older BESS projects. Use of LFP batteries increases the lifespan of projects, since LFP batteries deliver more charge cycles and suffer less degradation than NMC batteries.

We will work with our suppliers to encourage reduction of waste and recycling of batteries at the end of life (expected to be 15 years). The Code contains our expectations and requirements for suppliers to minimise waste and conserve resources. For projects where batteries are supplied by Tesla, it is anticipated that Tesla will fully recycle the battery parts / modules which can then be repurposed into new battery or alternative uses. Tesla's 2021 impact report states that from each 1 MWh of end of life batteries, 0.92 MWh worth of raw materials can be recovered.

## SOCIETAL IMPACTS AND EMPLOYEE WELLBEING

As an investment trust, the Company has no executive management or employees. The Board seeks to deliver success through good decision making underpinned by robust debate. The varied professional, educational, socio-economic and cultural backgrounds of the members of your Board ensure there is rich diversity of knowledge, perspectives, and challenge in such debate. Gender and ethnic diversity is achieved through the inclusion of three men and two women including one from a minoritised community, but we consider the real value of diversity comes from ensuring inclusion of different views arising from lived experiences and skills.

The Investment Adviser strengthened its team during the reporting period, creating new jobs as a result of the Company's activities. Jobs in the construction industry have also been supported through the construction of the Company's sites, and additional jobs created in the Company's supply chain and at the Company's service providers. We aim to report on indirect job creation in future reporting periods.

The Investment Adviser is committed to creating a culture and working environment which encourages equality, diversity and inclusion and recognises the benefits brought by a diverse group of employees. During the reporting period, an externally-facilitated training session on equality, diversity and inclusion was offered to all Investment Adviser employees. At the end of the reporting period, 30 per cent. of the Investment Adviser's employees were female. This proportion has increased since the reporting period and initiatives are planned to ensure inclusive recruitment practices continue to be developed.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE **CONTINUED**

The Investment Adviser regularly engages with its 26 employees (23 at the end of the reporting period), seeking feedback through employee surveys. In its summer 2022 survey, the Investment Adviser achieved an employee net promoter score of 88 (on a range from -100 to +100), based on the likelihood employees would recommend the organisation to others as a place to work. Employee wellbeing is an area of focus, with a number of initiatives launched in 2022 including improvements to internal communications, access to wellbeing services and free access to Yorkshire Wildlife Trust sites. Learning is promoted through internal knowledge-share sessions and externally facilitated training sessions, as well as employer-funded access to external training programmes.

The Company promotes respect for human rights in its supply chain through the requirements set out in the Code. We recognise the human rights-related risks in our value chain, particularly in the upstream areas of mineral extraction, refining and parts manufacturing. We are working with our suppliers to better identify risks and mitigations, particularly in respect of battery manufacture and supply. The absence of cobalt in the LFP batteries employed in the Company's portfolio reduces exposure to environmental and human rights risks relating to cobalt extraction in the Democratic Republic of Congo, where the majority of the world's supply is sourced.

Health, safety and wellbeing is one of our ESG priority areas and we have introduced robust health and safety standards and transparent reporting. Suppliers are evaluated and scored on health and safety performance, capabilities, policies and management as part of our procurement processes for our development sites. During the year, our EPC contractor (Tesla) held the role of Client under the Construction, Design and Management Regulations 2017 and appointed the principal contractor and principal designer. Notwithstanding limited legal responsibilities for health and safety management on our sites, we appoint specialist health and safety consultants to carry out audits on all construction sites and project managers employed by the Investment Adviser carry out additional monthly audits. Our Investment Adviser works closely with contractors to monitor incidents, safety observations and toolbox talks, and key learnings are shared between contractors across our sites. Health and safety statistics are reviewed at all Board meetings and the Board receives presentations from the specialist health and safety consultants working with the Investment Adviser.

We are pleased to report zero major Health and Safety incidents at the Company's sites during the reporting period. One minor environmental incident occurred at the Pillswood site during the reporting period, with prompt action taken to investigate and rectify the issue and positive feedback received from Yorkshire Water regarding the response to the incident.

We committed to transparency in ESG reporting in the Prospectus and, as part of this, will ensure that any health and safety incidents attributable to activities and that impact on local communities, but that occur outside our project sites, will be reported, investigated and the findings acted upon. During the reporting period, an incident occurred on the public highway outside the Company's Little Raith site, which was reported by the Company's contractor under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations). There were no injuries and the contractor took immediate action to investigate the incident and implement mitigants. Although the incident did not occur on the Company's site, representatives of the Investment Adviser interviewed the contractor and consulted an independent health and safety adviser, working with the contractor to ensure all appropriate actions were taken and improvements made. The Investment Adviser's project management team then took the learnings from this incident and created an education campaign to share with contractors across the Company's sites.

We take a zero tolerance approach to bribery, fraud and corruption and are committed to acting professionally, fairly, transparently, ethically and with integrity in all of our business dealings and relationships. The Supplier Code of Conduct requires suppliers to adhere to anti-bribery and corruption policies no less stringent than those of the Company and the Company monitors key service providers' policies and approach through the Management Engagement Committee service provider review process. For suppliers to the project SPVs, the Investment Adviser seeks to ensure service providers have appropriate policies in place and due diligence is conducted as part of the procurement process.

# CLIMATE, NATURE AND SOCIAL RISKS MANAGEMENT

Climate and nature-related risks, as well as risks relating to the social priority areas, are assessed during the planning, pre-acquisition and development phases of projects. Mitigation measures are put in place to manage and minimise the impact of these risks and action plans are put into place with contractors. The Investment Adviser oversees implementation of any mitigation measures, including biodiversity, land management, health and safety and community engagement. These risks and mitigations are recorded and monitored in site level risk registers and reflected in the Company level risk registers where appropriate.

In 2023, we will start to identify supply chain areas with the most significant risk of adverse impact, considering factors including country risk, supplier reputation and ownership, degree of leverage, category and tier of supplier and nature of relationship. The Investment Adviser will then implement processes to monitor risks, concentrating on higher risk areas. We recognise the concentration of risk in the upstream supply chain and our currently limited influence in this area, but will continue to work with our suppliers (both existing and potential future suppliers through the procurement process) to gather information and make improvements where possible.

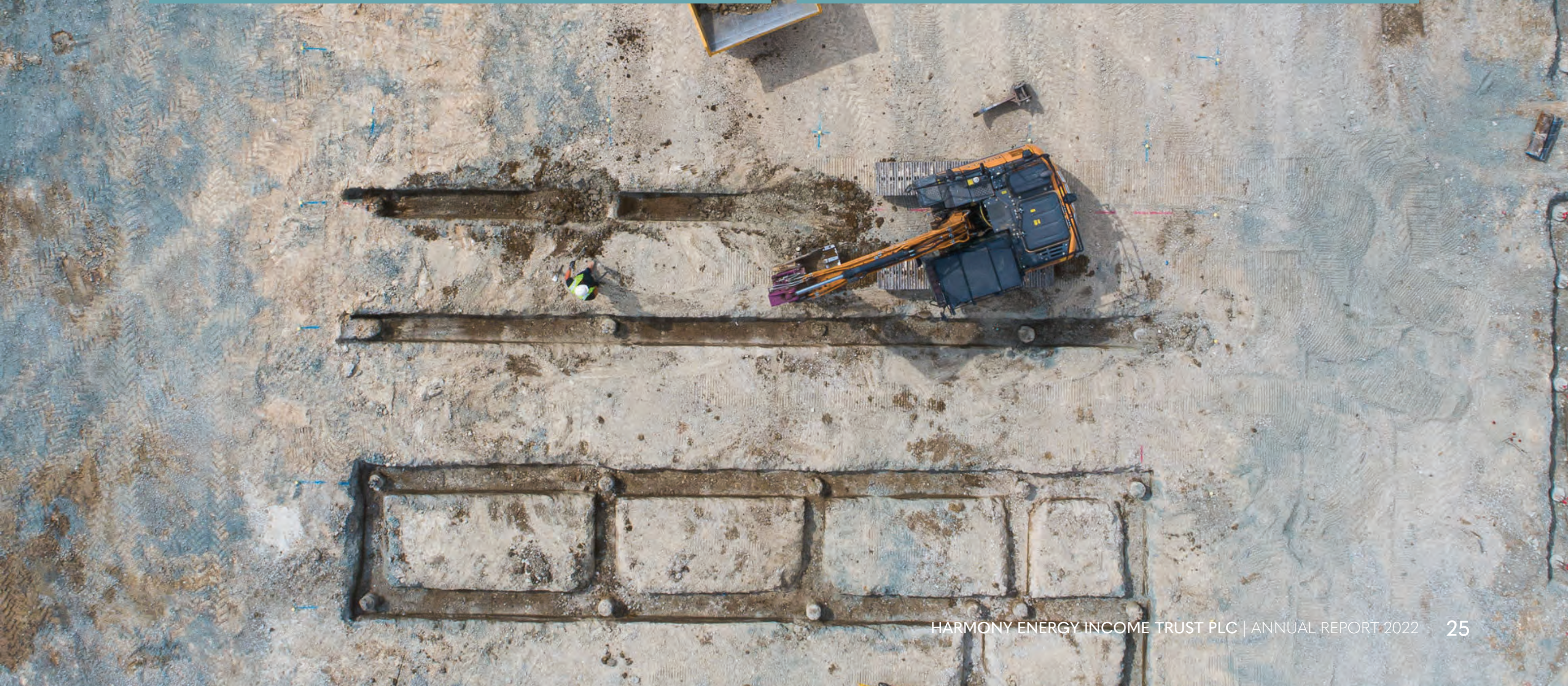
## CASE STUDIES

### Biodiversity – newt trapping and relocation at Bumpers

Work was carried out by independent ecologists at the Company's Bumpers site to trap and safely relocate great crested newts, following identification of a pond within 100m of the site which may have been a newt habitat. A total of 25 days of trapping was carried out by an ecologist appointed by the Company and 3 great crested newts were relocated offsite.

### Health and Safety – sponsorship of safety observations initiatives at sites

In line with the proactive approach to health and safety reporting and continuous improvement, the Company has sponsored an initiative across its sites to encourage contractor reporting of safety observations and near misses. A monthly prize draw is carried out for each site and a voucher awarded for near miss and safety observations, with the aim of improving site safety.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE **CONTINUED**

# ESG METRICS

## IN LINE WITH OUR COMMITMENT TO TRANSPARENCY ON ESG REPORTING, WE HAVE WORKED WITH EXTERNAL SUSTAINABILITY CONSULTANTS TO DEVELOP A FRAMEWORK FOR PROPOSED ESG METRIC REPORTING, ALIGNED WITH THE STRATEGIC PRIORITIES IDENTIFIED IN THE MATERIALITY ASSESSMENT.

Figure 4 provides baseline metrics for the reporting period from incorporation to 31 October 2022, for those metrics where data is available. In addition to the metrics reported in figure 4, we will report against additional metrics once projects reach operation and data is available. For climate, we will report storage capacity (MWh & MW per site), average battery efficiency (%), energy use (kWh) and benefits-in-use / avoided emissions ($CO_2e$). For nature, we intend to report biodiversity net gain (% habitat loss/gain) and number of on site biodiversity projects. For communities, we will report on the number of community projects supported and the amount invested in community projects. For waste and resources, we will report on-site waste (kg), by type and destination, average operating lifetime of batteries, share of BESS that is recyclable, and weight of end-of-life materials (kg) and actual recycling rate. For societal wellbeing, we will report the number and percentage of suppliers committed to the Code and the percentage of suppliers monitored annually for compliance with the Code.

The Investment Adviser is establishing data collection and reporting protocols to enable full reporting on the above metrics in future reports, including trend reporting, once assets are operational. This will include working with asset level suppliers to establish reporting of data such as on site waste.

**Figure 4 –ESG Metrics**

| Strategic ESG Priorities | Metrics | Reported metrics for period ended 31 October 2022 |
|---|---|---|
| Climate | Scope 1, 2, 3 emissions ($CO_2e$) – GHG Protocol & PCAF | Scope 1: 0<br>Scope 2: 0<br>Scope 3: 1,879 $tCO_2e$ |
| Nature | Number of reportable environmental incidents (#) | 0 |

| Secondary ESG Priorities | Metrics | Reported metrics for period ended 31 October 2022 |
|---|---|---|
| Societal impacts and employee wellbeing: Health, safety and wellbeing | Total Incident Frequency Rate (#) | 0 |
| | Site safety audits (#) | 22 |
| | Investment Adviser employee Net Promoter Score | 88 |
| Societal impacts and employee wellbeing: Diversity & Inclusion | Representation in HEIT Board (%) | 40% women<br>20% minority ethnic groups |
| Societal impacts and employee wellbeing: Wealth creation & Employment | Number of direct full time jobs created at the Investment Adviser (#) | 12.5 |
| | Number of hours of training provided to Investment Adviser employees | 88 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE **CONTINUED**

We appointed a sustainability consultant to calculate the carbon footprint for the reporting period, providing a baseline for setting targets and future measurement. As the reporting period was the first year of the Company's existence, the carbon footprint is not reflective of how future footprints will be. No site was fully completed during this reporting period and the protocol developed for calculating emissions provides that the carbon footprint for the construction period of a site will be reported once that site becomes operational.

The carbon footprint was calculated in line with the World Resource Institute (WRI)'s internationally recognised reporting standard the Greenhouse Gas (GHG) Protocol - A Corporate Accounting and Reporting Standard, with reference to the additional guidance provided in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Scope 3 Standard) and GHG Protocol Technical Guidance for Calculating Scope 3 Emissions (Scope 3 Guidance).

An equity share approach was used. Under the equity share approach, a company accounts for GHG emissions from operations according to its share of equity in the operation. The equity share reflects economic interest, which is the extent of rights a company has to the risks and rewards flowing from an operation. Typically, the share of economic risks and rewards in an operation is aligned with the company's percentage ownership of that operation, and equity share will normally be the same as the ownership percentage.

Under this approach, all project SPVs are within HEIT's organisational boundary, as they are wholly owned subsidiaries.

All other entities, in which the Company does not have an equity share, such as the Investment Adviser and other service providers are included in scope 3 emissions along with all other indirect emissions. A process-based approach was used to calculate emissions associated with the services provided by the Investment Adviser. The Investment Adviser's total carbon footprint was calculated, and a business rule applied to allocate an appropriate proportion of these emissions to the Company.

A range of methodologies was used to calculate GHG emissions for different activities and entities. Data types were prioritised using a specific data quality hierarchy:

1) Primary data: actual consumption data, e.g. litres of fuel or kWh consumed

2) Secondary data: data one step removed from actual consumption data, e.g. car mileage

3) Tertiary data: data two or more steps removed from actual consumption values, e.g. spend data

Where only spend data was available, Extended Environmental Input-Output (EEIO) modelling was used to estimate emissions associated with spend in a given sector of the economy in a given geography. This method is the least preferred as it does not reflect the specificities of HEIT's operations and supply chain, and therefore limits the ability to demonstrate emission reductions over time. However, it is a useful tool to help achieve boundary completeness in the absence of primary or secondary data. We intend to work with suppliers to obtain primary and secondary data where possible for future carbon footprint analyses.

# PRINCIPAL RISKS AND UNCERTAINTIES

The Board recognises the importance of effective risk management in enabling the Company to deliver its strategic objectives. The Investment Policy, as set out in the Prospectus, details the limits on risk that the Board will take.

## WHAT WE MONITOR

The Company's risk register was prepared based on the risks stated in the Prospectus, and is regularly reviewed by the Investment Adviser, the AIFM and the Board and updated to reflect any emerging risks or changes to the identified risks. Day to day ownership of risk sits with named individuals at the Investment Adviser, who monitor and assess both current and emerging risks. Risks are categorised and assessed to determine likelihood and impact. Ratings are applied to the risks before any mitigating action and again following consideration of the adequacy of mitigating actions. Mitigating actions are summarised in the risk register and are subject to review and monitoring.

## HOW WE MONITOR RISK

The Board retains ultimate responsibility for the Company's activities and Board meetings are held at least four times a year, at which the risk register of the Company is reviewed and updates are reported by the AIFM on any changes to the risks or their ratings.

The Audit and Risk Committee meets at least three times each year. The Committee reviews the adequacy and effectiveness of the Company's internal controls and risk management systems and every six months it carries out a reassessment of the principal risks facing the Company.

The AIFM provides risk management services to the Company, including implementation of risk management policies to identify, measure, manage and monitor the risks that the Company is or might be exposed to and ensuring that the Company's risk management policy and implementation comply with applicable regulations. Representatives of the AIFM meet with Investment Adviser representatives at least quarterly to review the risk register and discuss any changes proposed. The proposed updates to the Company's risk register are further reviewed and approved by the AIFM's internal Risk Committee in advance of circulation to the Board.

The identified risk owners within the Investment Adviser are responsible for formal quarterly reporting of current and emerging risks and issues to the Investment Adviser's leadership. A formal quarterly review of the risk register is carried out by the Investment Adviser and any recommendations for updates are made to the AIFM. Any major emerging risks and issues are escalated outside of the quarterly review framework.

## TABLE OF PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers the following to be the principal risks and uncertainties facing the Company as at the date of approval of the accounts. The risks are presented in order of significance based on net residual risk, following mitigations.

The Directors have assessed climate change risk and have concluded that the risk of climate change on the Company's business model and investment valuation is not considered significant. This is primarily due to the fact the Company's business model is energy storage which makes low carbon electricity systems more effective, and is a facilitator of growth in use of renewable energy. The local impacts of climate change risk on projects have been considered under environmental risk.

FARNHAM (20 MW / 40 MWh)

# PRINCIPAL RISKS AND UNCERTAINTIES **CONTINUED**

| Risk Description | Possible Consequences | Mitigating Actions |
|---|---|---|
| **Project supplier delivery delays** | | |
| delays in delivery under existing supply contracts; adverse changes to estimated costs and delivery timetable from key suppliers; battery installation delays. | • Increased costs<br>• Delay to income generation<br>• Reduced NAV | • Contingencies are built into the modelled project timelines.<br>• Tender processes for future contracts are only conducted with suppliers with a strong track record.<br>• EPC (or BESS supply) contracts contain robust obligations regarding price and delivery timetables.<br>• Contingency is included in project budgets for unexpected cost increases or loss of income caused by project delays. |
| **Project development and construction risk** | | |
| risk of failure to deliver Pipeline Projects and incurrence of costs, including planning delays, grid connection delays, land disputes | • Increased costs<br>• Reduced returns<br>• Delays to deployment of capital and/or income generation<br>• Non-compliance with investment policy | • Harmony Energy Limited has an extensive track record in development and delivery of renewable energy projects and its project managers oversee the delivery of each site.<br>• The Company's investment policy prohibits the Company from acquiring projects which are not "shovel ready" meaning the project has, planning permission, binding grid offers and options over land in place as well as a BESS supply & installation contract with material terms agreed with a reputable counterparty. These qualifications are corroborated by independent due diligence during the investment process.<br>• The Investment Adviser monitors appropriate factors and reports to the Board any relevant information as soon as practicable.<br>• Portfolio diversification and budget contingency provide mitigation.<br>• The investment process allows the pipeline to be controlled and acquired with full visibility of the capital deployment timetable. |
| **Cyber risk** | | |
| risk of data loss; risk of cyber attack. | • Increased costs<br>• Reputational damage<br>• Non-compliance with relevant laws and regulations | • The Company reviews all third party service providers' and suppliers' IT security policies, including the Investment Adviser, revenue optimiser and key hardware suppliers.<br>• Reports will be required from suppliers on ISO compliance, penetration testing and attempted attacks.<br>• Operational level equipment complies with Energy Networks Association Cyber Security Connection Guidance and the Investment Adviser has multi-factor authentication for its internal data platform.<br>• The Investment Adviser appoints external IT specialists who assess the adequacy of its cybersecurity measures and suggest updates to address new cyber threats and reflect best practice. |
| **Reliance on third parties** | | |
| risk that key personnel in the Investment Adviser and other third party service providers are not properly incentivised or managed to deliver the Company goals. | • Delayed deployment of capital<br>• Reduced returns<br>• Non-compliance with relevant laws and regulations | • Performance of service providers is regularly monitored by the Investment Adviser and the Management Engagement Committee against agreed KPIs<br>• Termination periods for key service providers are negotiated to ensure sufficient time for tendering and onboarding.<br>• The Management Engagement Committee ensures service providers, including the Investment Adviser, are paid sufficient fees to attract and retain staff.<br>• Independent power price forecasts and other industry intelligence subscriptions are used to support NAV calculations.<br>• Valuations are carried out by an independent provider.<br>• Engagement of a revenue optimiser ensures revenue is maximised. The revenue optimiser is engaged on a rolling short term contract to enable replacement in the event of poor performance, and the fee is structured to incentivise performance. |

# PRINCIPAL RISKS AND UNCERTAINTIES **CONTINUED**

| Risk Description | Possible Consequences | Mitigating Actions |
|---|---|---|
| **Environmental risk** | | |
| risk of unexpected environment-related costs and liabilities. | • Unsafe working conditions<br>• Reputational damage<br>• Increased costs<br>• Non-compliance with relevant laws and regulations | • Full due diligence is undertaken on proposed investments, including environmental due diligence.<br>• This includes consideration of future climate change related risks such as severe weather events or flooding.<br>• Due diligence recommendations to mitigate environmental risks are factored into investment proposal costs and implemented on the projects.<br>• Construction contracts ensure that the third party contractor is liable for any environmental hazards discovered during construction which would not have been discovered by a reasonable investigation performed by a competent third party specialist.<br>• Projects are insured to cover delays to commencement of operations and other environmental risks, including damage to assets from severe weather. |
| **Market risk** | | |
| reduced growth of renewables sector; fluctuations in pricing of natural gas and carbon taxes. | • Reduced revenue<br>• Reduced NAV | • Subscriptions to market intelligence services ensure the Investment Adviser is aware of industry outlook and developments at the earliest stage.<br>• The Investment Adviser and Board regularly engage with industry stakeholders and policymakers.<br>• Any changes to the market outlook are factored into revenue forecasts and investment proposals. |
| **Regulatory risk** | | |
| reduced returns from changes to applicable law; unfavourable energy or power network policies; non-compliance with legal and regulatory requirements for investment trusts | • Non-compliance with relevant laws and regulations<br>• Reduced returns<br>• Reputational damage | • The Company is well positioned to monitor and react to the energy policy and political landscape, and inputs to relevant energy industry consultations.<br>• Attendance at energy policy and regulatory seminars and engagement with industry stakeholders and policymakers ensure up to date insights.<br>• A monitoring programme put in place by the Company Secretary monitors compliance with all applicable legal and financial legislation and regulatory requirements.<br>• An experienced AIFM has been appointed, with an independent compliance officer.<br>• Across the Board, Investment Adviser and AIFM there is an in-depth knowledge of the relevant laws and regulations relating to NAV and revenue.<br>• A tax advisor is appointed to monitor tax law changes.<br>• The Company Secretary, AIFM and Board monitor regulatory requirements and compliance in order to always retain investment trust status. |
| **Safety risk** | | |
| risks to health and safety during construction or operation. | • Unsafe working conditions<br>• Workplace injuries<br>• Reputational damage<br>• For project SPVs, non-compliance with relevant laws and regulations | • The Investment Adviser appoints health and safety advisors to undertake audits of all sites and provide support to the Investment Adviser's project management team.<br>• The Investment Adviser and Board monitor health and safety compliance and performance.<br>• For projects under construction during the reporting period, the EPC contracts with Tesla contain obligations in respect of health and safety on sites and Tesla has the role and responsibilities of Client under the Construction (Design & Management) Regulations.<br>• Procurement due diligence includes an assessment of contractor health and safety track record and compliance framework.<br>• Insurance policies are in place to provide cover against certain losses. |

# PRINCIPAL RISKS AND UNCERTAINTIES **CONTINUED**

| Risk Description | Possible Consequences | Mitigating Actions |
|---|---|---|
| **Conflicts of interest** | | |
| risk of acquiring projects other than at fair market price; risk of over valuing assets to increase share price; conflicts of interest in acquisition of projects from a related party, Harmony Energy Limited. | • Increased costs<br>• Reduced returns<br>• Reputational damage | • Mitigants of potential conflicts of interest are built into the contractual structure, including a significant portion of consideration for projects being paid to Harmony Energy Limited in the Company shares rather than cash, more comprehensive warranties than would be expected in a usual arms length transaction with more limited disclosure and clawback provisions to allow the Company to recover consideration from Harmony Energy Limited in certain circumstances.<br>• In addition, the Company has built mitigants into its governance processes and commercial arrangements, including the separation of the Investment Adviser's investment committee from the Harmony Energy Limited development team and the requirement to procure an independent valuation and external due diligence prior to acquisition, and all acquisitions are subject to approval of the Board, all of whom are independent. |
| **Changing macro economic conditions** | | |
| changing economic conditions may lead to increased costs or lower returns and could result in shares trading at a discount to NAV. | • Increased investor return requirement leading to reduced NAV<br>• Reduced returns<br>• Increased costs<br>• Reduced NAV | • Macro economic factors are monitored and reported to the Board.<br>• Changes to the economic outlook are factored into revenue forecasts, valuations and investment proposals for future investments.<br>• As a relatively new asset class, BESS asset valuations are less directly linked to interest rate movements than other renewable assets. Discount rates have been coming down despite increasing interest rates as investors become more comfortable with the track record demonstrated by the sector.<br>• The Company has taken appropriate hedging actions to address the risk of interest rate fluctuations. Hedging strategies will be evaluated on an ongoing basis in relation to any additional borrowing.<br>• Supply of certain items of key equipment is priced in USD, EUR or RMB. In these cases the FX risk has been passed to suppliers through the relevant supply and installation contracts. In future the Company may consider financial hedging instruments if deemed appropriate. The Company benefits from a natural FX hedge in that revenues are linked to gas prices which are priced in USD. |

# PRINCIPAL RISKS AND UNCERTAINTIES **CONTINUED**

## EMERGING RISKS

The Investment Adviser, the AIFM and the Board monitor emerging risks and assess their potential to adversely impact operations on a quarterly basis. Following a comprehensive review of risks and probabilities, the Board discussed the potential existence of any new emerging risks which were not yet reflected on its risk register. Whilst no such new thematic emerging risks were identified, the Board wish to highlight the ongoing regulatory risk posed by the ongoing Review of Electricity Market Arrangements ("**REMA**").

REMA was launched in July 2022 by the Department for Business, Energy & Industrial Strategy ("**BEIS**"). The scope of the review is comprehensive and covers the entire British electricity market design, with the goal of ensuring that it is fit for the purpose of maintaining energy security and affordability for consumers as the electricity sector decarbonises. BEIS has set out five key future system challenges out to 2035, which are: investment; flexibility; location and networks; operability; and whole system flexibility. The Company sees opportunity creation for BESS given how flexible the technology is and the clear operability benefits this brings to National Grid ESO.

The consultation closed on 10 October 2022. The Company participated by submitting comprehensive responses.

The Company also took the opportunity to highlight that BESS does not benefit from any taxpayer support or subsidy, so a stable and supportive regulatory landscape is especially important to ensure that the growth of this vital enabling technology keeps pace with system demands.


PILLSWOOD (98 MW / 196 MWh)

# SECTION 172 STATEMENT

Under s172 of the Companies Act 2006, the Directors have a duty to promote the success of the Company for the benefit of its members as a whole, and in doing so to have regard to a number of matters including:

- the likely consequences of any decision in the long term;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct;
- the need to act fairly as between members of the Company; and
- the interests of the Company's employees;

The Strategic Report details the policies and strategy which are developed to promote the success of the Company. As an externally managed investment company with no employees, the Board considers its key stakeholders to be its Shareholders, the Investment Adviser and other service providers. The Company also takes into consideration the wider environment in which it operates.

This statement summarises how the Directors have engaged with the Company's key stakeholders and how the interests of those stakeholders were taken into account in key decisions made during the year.

## SHAREHOLDERS

Engagement with Shareholders and potential investors is key to the success of the Company. Regular communication is made with Shareholders through financial statements, RIS announcements, and quarterly factsheets and publication of the Company's NAV. Information is also provided on the Company's website.

The Company's corporate brokers attend the scheduled quarterly board meetings and provide regular updates to the Board on dialogue with investors and potential investors. The Investment Adviser has held regular meetings with current and potential investors, providing updates on the status of the portfolio as well as the BESS market more generally. Aside from one-on-one investor meetings, the Investment Adviser has held analyst calls following key announcements and spoken on relevant panels hosted by brokers and analysts. In addition to direct investor engagement the Investment Adviser has actively sought to create strong relationships with analysts in order to raise the profile of the Company and reach a wider investor base.

The Chair has met with any Shareholder who requested a meeting during the year and will continue to do so.

## THE INVESTMENT ADVISER

The Board regularly reviews the Company's performance against its investment objectives, and the relationship with the Investment Adviser is a key business relationship. The Investment Adviser attends all scheduled quarterly Board meetings, provides regular detailed reporting on the Company's portfolio to the Board and regularly interacts with the Directors, both individually and collectively as a Board.

The Chair also has frequent and regular contact with the Investment Adviser and the Broker.

The Board, through its Management Engagement Committee, is responsible for reviewing performance of the Investment Adviser annually.

## OTHER SERVICE PROVIDERS

The Company recognises the important role played by its suppliers in running its business. The Management Engagement Committee is responsible for the annual review of the performance of service providers and reports on its findings to the Board.

Since the reporting period, the Chair has visited two of the BESS sites and both the Chair and the Chair of the Management Engagement Committee have visited the Pillswood site. In each case, this enabled Directors to engage with suppliers to the Company's subsidiaries.

## THE COMMUNITY AND ENVIRONMENT

Engagement with the community begins before the sites are acquired by the Company, and will continue through the life of the projects. The Environmental, Social and Governance section on pages 18 to 27 provides further details on engagement with local communities and the actions taken in respect of environmental matters. The Board receives quarterly updates on ESG-related matters from the Investment Adviser and the ESG Committee of the Investment Adviser, including community and environmental initiatives and issues. These are discussed in more detail elsewhere in the Annual Report.

## KEY DECISIONS AND ACTIONS TAKEN DURING THE YEAR

Key decisions and actions during the year which have required the Directors to have regard to applicable section 172 factors include:

- The Company became a signatory of the UN PRI. This is noteworthy as for most investment trusts it is the investment advisor or fund manager that becomes a signatory. The Board felt that the issue was important enough that the Company itself should become a signatory, rather than delegated responsibility. Board members received training on the requirements associated with becoming a UN PRI signatory and a representative of the UN PRI was invited to attend a Board

# SECTION 172 STATEMENT **CONTINUED**

meeting to provide a further presentation on the UN PRI and the reporting process.

- The Company agreed a debt facility of £60m from NatWest Bank plc to support the acquisition and construction of its first pipeline project. This was carried out following advice from the AIFM, and support from the Investment Adviser, and enabled the Company to expand its portfolio in line with investment objective.
- In July 2022, the Company paid a dividend totalling 1p per Ordinary share to Shareholders, demonstrating the Board's commitment to sustainable levels of income returns for Shareholders. The Board worked with the Investment Adviser to ensure delivery of the dividend in line with the target set in the Prospectus. Post year end, the Company paid a further dividend of 1p per Ordinary share to Shareholders, fulfilling the undertaking made at the launch of the Company.
- The Company acquired the Bumpers project from Harmony Energy Limited, following a recommendation from the AIFM based on a proposal from the Investment Adviser. Engagement with Tesla and key sub-contractors ensured an EPC contract could be executed immediately following acquisition to deliver the project.
- The Company adopted an ESG strategy, based on the outcome of a materiality assessment carried out with support from external sustainability consultants. Stakeholder engagement for the materiality assessment included workshops with representatives from the Investment Adviser, investors and key suppliers.
- Following discussions with the Investment Adviser and the Broker, the Company launched a capital raise via the placing of new C Shares to fund the acquisition of BESS projects under the ROFR and which were ready for acquisition i.e. shovel ready. This provided an opportunity for existing and new Shareholders to invest in the Company and allowed the Company to further its investment objective to provide investors with an attractive and sustainable level of income returns with the potential for capital growth. The placing took place at the time of the Government's "mini-budget" in September 2022 into what was a very difficult environment. Despite several issues in the market at the same time being pulled, the Company did raise £14.7 million and is grateful to those Shareholders who supported the capital raise allowing the Company to secure the rights to three more projects.

BUMPERS (99 MW / 198 MWh)

# VIABILITY AND GOING CONCERN

## SHARE BUYBACKS

The Company is authorised to make market purchases of up to 14.99 per cent. of the issued Ordinary Shares immediately following IPO and expiring at the conclusion of the Company's 2023 Annual General Meeting. The Board intends to seek Shareholder approval to renew its authority to make market purchases of its own issued Ordinary Shares at the 2023 Annual General Meeting. Purchases of shares will be made within guidelines established from time to time by the Board and only in accordance with the Statutes and the Disclosure Guidance and Transparency Rules. At the date of this Annual Report, the Company does not hold any shares in treasury and has no intention to buy back shares at the present time.

## GOING CONCERN

As at 31 October 2022, the Company had net current assets and net cash balances of £127 million. In addition, the Company, through its wholly owned subsidiary HEIT Holdings Ltd had access to an undrawn £60 million senior debt facility with NatWest. The combination of cash balances and undrawn debt facility was sufficient to meet commitments made under construction contracts signed by subsidiaries.

HEIT Holdings Ltd's debt facility was extended in February 2023, to £110 million and a £20 million RCF was also agreed. The additional funds are expected to be used in relation to the construction of the Hawthorn Pit and Wormald Green projects which were acquired by the Company in December 2022. All debt facilities remain undrawn as at the date of publication and will be drawn down over time subject to certain construction milestones.

As at 31 October 2022, the Company was a guarantor to its wholly owned subsidiary, HEIT Holdings Ltd in respect of the £60 million debt facility. Post reporting period, this guarantee has been increased to cover the new £110 million debt facility and the ancillary revolving credit facility of up to £20 million. The Company also provides parent company guarantees to subsidiaries in relation to certain construction and/or battery supply contracts. As at 31 October 2022, total committed funding to subsidiaries was £161 million. As at the date of publication, the aggregate outstanding funding commitment stands at £148 million, recognising both expenditure incurred post reporting period as well as new commitments made in relation to the Hawthorn Pit and Wormald Green projects. These commitments are covered by the Company's cash reserves and debt facilities.

In December 2022, the Company acquired the 99MW Rye Common project and has made key grid connection milestone payments in line with its construction schedule in order to maintain the project timetable and protect project value but is not contractually obligated to make any payments. Construction of this project remains subject to putting in place funding arrangements. The Investment Adviser and the Board continue to evaluate options in relation to this project which could include, inter alia, extension of debt facilities, further capital raises, vendor financing or sale of the project.

The Directors have reviewed the results of financial models analysing the expected position of the Company under base case as well as two downside scenarios. Under all scenarios the financial model shows that sufficient cash is expected to be available to meet the Company's obligations and commitments (including but not limited to construction contracts, working capital requirements and debt service).

The Directors have adopted the going concern basis in preparing the Annual Report and Financial Statements and have concluded that the Company's available funding and expected income are sufficient for the Company to continue its operations for at least 12 months from the date of signing these financial statements.

## VIABILITY STATEMENT

The Directors have considered the period to January 2026 for the purposes of assessing the Company's viability. The assessment takes into account the availability of cash reserves and committed debt funding whilst assuming that all projects except Rye Common are brought into operations during the assessment period.

The base case financial model prepared to assess viability utilises the same prudent revenue and other key assumptions which are used to value the Company's investments. Revenue assumptions are based on forecasts from three independent providers, have been agreed with Mazars as independent valuers and are in line with or lower than the revenue generated by operating 2-hour duration batteries in 2022. Key costs such as operations and maintenance costs, revenue optimisation fees, lease costs etc are modelled in line with executed contracts which have been reviewed by Mazars (as independent valuer).

In addition, the Directors have considered a downside scenario which *inter-alia*, assumes base case EBITDA performance of underlying subsidiaries is reduced by c.25 per cent. on average over the assessment period. This downside scenario is based on a low-commodity price environment in which gas prices and carbon prices in particular are at significantly reduced levels. This environment in turn impacts the revenue opportunities for battery storage. In addition the Directors have considered the impact of delays to construction.

Given the current commodity pricing environment, as well as the observed performance of 2-hour duration batteries in 2022, the downside cases are considered unlikely.

The Directors note that the Company is not reliant on revenues from operating projects in order to meet its commitments in relation to the funding of project construction costs. Having considered the results of the financial models, the Directors have a reasonable expectation that the Company is able to meet its working capital and debt service commitments over the assessment period and that key risks have been considered in this assessment.

The Board therefore consider that there are no significant doubts about the Company's ability to continue as a going concern and the Company remains viable under a reasonable worst-case scenario.

# GOVERNANCE

# BOARD OF DIRECTORS

## NORMAN CRIGHTON

CHAIR AND INDEPENDENT NON-EXECUTIVE DIRECTOR

**Date of Appointment:**
12 October 2021

Norman is an experienced public company Chair with extensive fund experience. He is Non-Executive Chairman at Weiss Korea Opportunity Fund Limited, RM Infrastructure Income plc, AVI Japan Opportunity Trust plc and is also a director of Universal Umvelt Ltd.

**Committee membership:**

1 2 3 4

## JANINE FREEMAN

CHAIR OF THE AUDIT AND RISK COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTOR

**Date of Appointment:**
12 October 2021

Janine is a qualified Chartered Accountant, qualifying at Deloitte & Touche, and an experienced senior energy industry executive with over 20 years' experience in the sector, 16 of which were spent at National Grid plc. She is an independent non-executive director of Aquila Energy Efficiency Trust plc and a member of their Audit and Risk, Nomination, Remuneration and Management Engagement Committees; and Non-Executive Chair at Public Power Solutions Limited.

**Committee membership:**

1 2 3 4

## DR HUGH MCNEAL

CHAIR OF THE MANAGEMENT ENGAGEMENT COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTOR

**Date of Appointment:**
12 October 2021

Hugh has extensive industry experience in the renewable energy sector and is a Non-executive Director of Proserv UK and of the Offshore Renewable Energy Catapult (since 2016). He previously held the positions of CEO of Renewable UK from 2016-2021; and Chief Executive for the Office for Renewable Energy Deployment at DECC from 2010-2014.

**Committee membership:**

1 2 3 4

Committee Key:

1 Audit and Risk Committee 2 Remuneration and Nomination Committee 3 ESG Committee 4 Management Engagement Committee

# BOARD OF DIRECTORS **CONTINUED**

### WILLIAM RICKETT, CB
CHAIR OF THE REMUNERATION AND NOMINATION COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTOR

**Date of Appointment:**
12 October 2021

Willy is an experienced industry professional and Chairman of Cambridge Economic Policy Associates Ltd. He was previously a civil servant working at board level in various government departments, including energy, transport and the Cabinet Office, finishing as Director General, Energy from 2006 to 2009. Since then he has worked as a non-executive director on the boards of a number of companies, including Greencoat UK Wind plc, Eggborough Power Ltd, Helius Energy plc and Impax Environmental Markets plc.

**Committee membership:**
1 2 3 4

### DR SHEFALY YOGENDRA
CHAIR OF THE ESG COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTOR

**Date of Appointment:**
12 October 2021

Shefaly is an experienced risk and decision-making specialist with a career working in the technology industry including startups and investors. She is an independent non-executive director at Witan Investment Trust plc; JP Morgan US Smaller Companies Trust plc, where she chairs the Remuneration Committee; and Temple Bar Investment Trust plc where she chairs the Nomination and Management Engagement Committees. Shefaly is also an independent Governor of London Metropolitan University where she chairs the Audit and Risk Committee.

**Committee membership:**
1 2 3 4

# DIRECTORS' REPORT

## THE DIRECTORS ARE PLEASED TO PRESENT THEIR ANNUAL REPORT INCLUDING THE COMPANY'S AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2022.

The Corporate Governance Report on pages 41 to 44 forms part of this Directors' Report.

### PRINCIPAL ACTIVITY AND STATUS

Harmony Energy Income Trust Plc is a public limited company registered and incorporated in England and Wales under the Companies Act 2006 (the "**Act**") on 1 October 2021 with registered number company no. 13656587. The Company is registered as an investment company under section 833 of the Act. The Company's principal activity is to invest in commercial scale battery energy storage and renewable energy generation projects, with an initial focus on a portfolio of utility scale battery energy storage systems, located in diverse locations across Great Britain.

### DIRECTORS

The Company has a Board comprising of five independent non-executive Directors. The Directors of the Company during the period under review and at the date of this report are Norman Crighton (Chair), Janine Freeman, Hugh McNeal, William Rickett and Shefaly Yogendra, all of whom were appointed on 12 October 2021. James Ritchie-Bland, Peter Kavanagh and Pete Grogan were appointed as directors from 1 October 2021 to 12 October 2021. Brief biographical details of the current Directors are given on pages 37 and 38. The Company has no employees.

The Board of Directors manages the Company's business and may exercise all of the Company's powers, subject to the Articles of Association, the Companies Act and any directions given by special resolution. Amendments to the Company's Articles of Association require a special resolution to be passed by Shareholders.

### DIRECTORS' INSURANCE AND INDEMNITY

Directors' and Officers' Liability Insurance cover is held by the Company in respect of the Directors. The Company has also granted indemnities to each of its Directors to the extent permitted by law in respect of costs of defending claims against them and third party liabilities.

### SUBSTANTIAL SHAREHOLDINGS

As at 31 October 2022 the Company is aware of the following substantial Shareholders who were directly or indirectly interested in 3% or more of the total votes in the Company's issued capital:

| | At 31 October 2022 | |
|---|---|---|
| **Shareholder** | **Number of Ordinary/ C Shares held** | **Percentage of Issued Share Capital** |
| Schroders plc | 29,498,981 | 13.12 |
| Harmony Energy Limited | 23,483,695 | 11.18 |
| Handelsbanken Wealth and Asset Management Limited | 16,040,402 | 7.64 |
| Close Asset Management Limited* | 15,458,353 | 6.89 |
| EQ Investors Limited | 12,414,053 | 5.91 |
| Newton Investment Management Limited | 10,478,534 | 4.99 |
| Walker Crips Group | 10,450,102 | 4.98 |
| Waverton Investment Management Limited | 7,376,423 | 3.28 |

* Holds 11,312,853 Ordinary Shares and 4,145,500 C Shares

On 31 January 2023 the C Shares were converted into new Ordinary Shares on a conversion ratio of 0.786735 new Ordinary Share for every 1 C Share held. At the date of this report the Company has been notified of the following changes in holding of voting rights in the Company:

- Schroders plc changed to 33,818,981 Ordinary Shares (14.59%)
- Harmony Energy Limited changed to 28,383,695 Ordinary Shares (12.25%)
- Close Asset Management Limited 20,818,728 Ordinary Shares (9.17%)

### SHARE CAPITAL

At 31 October 2022, the Company's issued share capital comprised 210,000,000 Ordinary Shares with a nominal value of £0.01 each and 14,771,364 C Shares with a nominal value of £0.10 representing 100% of the total issued share capital. Each Ordinary Share and C Share entitles the holder to one vote and there are no restrictions on those voting rights. Details of the movement in the Company's share capital can be found in note 19 on page 81. C Shares in issue are convertible and as required under IAS 32, are presented as financial liabilities at amortised cost in the Statement of Financial Position. Details can be found in note 15 on page 74.

# DIRECTORS' REPORT **CONTINUED**

The Company has entered into a Lock-up and Orderly Market Deed with Joh. Berenberg, Gossler & Co. KG, London Branch, as broker, and certain shareholders, whereby each shareholder that is party to the Deed has agreed, with exceptions, that:

1. they will not dispose of their shareholding in the Company for a period of 5 years commencing on the date of Initial Admission; and

2. for a period of 12 months after the end of the five year period they will not dispose of any interest in their shareholding other than through the Company's broker.

As at the end of the period 26,083,680 Ordinary Shares and 990,000 C Shares were subject to the terms of the Lock-up and Orderly Market Deed. There are no other restrictions on the transfer of shares other than as set out in the Articles of Association.

## DIVIDENDS

All Ordinary Shares are entitled to receive dividends and interim dividends have been paid by the Company as shown in the table below. No final dividend has been or will be declared, but the Company's dividend policy of paying four interim dividends will be tabled for approval at each AGM.

Dividends are not recognised in the financial statements of the company until paid. An initial dividend yield target of 2p for the calendar year ended 31 December 2022 was set by the Board and has been met, per the below table. Further the Board confirmed its commitment to targeting a 8p per Ordinary Share dividend per annum, payable quarterly in March, June, September and December.

| Dividend Date | Amount paid per Ordinary Share |
|---|---|
| 29 July 2022 | 1p |
| 2 December 2022 | 1p |

## RELATED PARTY TRANSACTIONS

Any related party transactions during the period to 31 October 2022 can be found in Note 24 to the Accounts on page 83.

## FINANCIAL INSTRUMENTS

The Company's financial instruments and principal risks are disclosed in Notes 16 and 17 to the Accounts on page 75.

## INVESTMENT OBJECTIVE AND INVESTMENT POLICY

The Company's investment objective and investment policy is detailed in the Strategic Report on page 16.

## SUBSIDIARY COMPANIES

The Company has the following subsidiaries, all of which are held 100%. Details on the subsidiaries can be found in Note 10 on page 72.

- Harmony (PW) Limited
- Harmony (PW) 2 Limited
- Harmony BD Limited
- Harmony FM Limited
- Harmony RH Ltd
- Daisy No. 2 Limited
- HEIT Holdings Ltd
- Harmony BF Limited

## FUTURE DEVELOPMENTS

Consideration of future developments are detailed in the Chair's Statement on page 4.

## POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in Note 26 of the financial statements on page 85.

## ENVIRONMENTAL SOCIAL AND GOVERNANCE CONSIDERATIONS

The Board seeks to maintain high standards of conduct with respect to environmental, social and governance issues and to conduct the Company's affairs responsibly. The Company does not have any employees or officers and so the Board does not maintain specific policies regarding employee issues but has adopted an ESG Policy and ESG strategy, further details of which are set out in the Environmental, Social and Governance section on pages 18to 27. The Company also expects the Investment Adviser and its service providers to consider these issues when fulfilling their roles and supplier performance in this area is monitored by the Management Engagement Committee.

The Company has calculated and reported on its carbon emissions under Scopes 1, 2 and 3 of the GHG Protocol in our ESG metrics. Details of the approach used and the carbon footprint are set out in the Strategic Report on pages 26 to 27.

## CHANGE OF CONTROL

There are no significant agreements that the Company is a party to that might be affected by a change of control of the Company following a takeover bid.

## ANNUAL GENERAL MEETING

The Annual General Meeting ("**AGM**") of the Company will be held on Wednesday, 22 March 2023 at 10.00 a.m. and the AGM Notice and Form of Proxy will be circulated to all shareholders in advance of the meeting.

## INDEPENDENT AUDITOR

The Company's auditors, Ernst & Young LLP, has expressed its willingness to continue as auditor for the financial year ended 31 October 2023 and a resolution proposing their re-appointment will be submitted at the 2023 AGM.

Signed on behalf of the Board by

**Norman Crighton**
Chair
22 February 2023

# CORPORATE GOVERNANCE

The Board of Harmony Energy Income Trust plc has considered the Principles and Provisions of the AIC Code of Corporate Governance ("**AIC Code**"). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the "**UK Code**"), as well as setting out additional Provisions on issues that are of specific relevance to Harmony Energy Income Trust plc. The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to Shareholders.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The Board believes that the Company has complied with the Principles and Provisions of the AIC Code with the exception of the items outlined below:

1. The Company does not have a senior independent director.

   After considering the Company's particular characteristics, objectives and Board structure, the Board has determined that the appointment of a senior independent director is not necessary or desirable to promote the open, equal and shareholder-facing board dynamic that the Board believes it can achieve as a wholly non-executive Board.

2. The Company does not have an internal audit function.

   Given the nature and circumstances of the Company as an investment company with external service providers, all of whom have their own control systems in place, the Company does not consider it necessary to have in internal audit function. Further details on the Audit Committee's assessment of the need for an internal audit function can be found in the report of the Audit and Risk Committee on page 47.

## BOARD LEADERSHIP, CULTURE AND PURPOSE

The Chair, Norman Crighton, is responsible for leadership of the Board and leads the Board in the determination of its strategy and in the achievement of its objectives. The Board views its purpose as being to set and execute its investment objective by working in partnership with the Investment Adviser to invest in energy storage and complementary renewable energy generation assets with an initial focus on a diversified portfolio of utility scale battery energy storage systems located in diverse locations across Great Britain.

The Chair has responsibility for the organisation of the business of the Board, ensuring its effectiveness and setting its agenda. The Company's investment objectives are detailed in the Investment Adviser's report on page 16.

The Board encourages a culture of openness, independence, engagement and mutual respect of each member's experience and professionalism. The Board continually monitors its own culture, practices and behaviour and the Chair encourages each Board member to question, debate and challenge recommendations not only from the Company's key suppliers (including the Investment Adviser) but also from each other. Issues raised are considered by the Board and any actions required are monitored.

## DIVISION OF RESPONSIBILITIES

### Matters reserved for the Board

The Directors have adopted a formal schedule of matters reserved for the Board which sets out the responsibilities of the Board. These matters include:

- Overall leadership of the Company and setting of its purpose, values and standards.
- Investment/business strategy, including the ongoing review of the Company's investment objective and investment policy. Approving any and all changes to the Company's investment objective and investment policy and recommending to Shareholders the approval of any material alterations thereto.
- Approval of risk management policies including, but not limited to, insurance, hedging, borrowing limits and corporate security (following recommendation from the Audit and Risk Committee).
- Ensuring the maintenance of a system of internal controls and risk management, reviewing at appropriate intervals the Company's overall internal control arrangements (following review and recommendation from the Audit and Risk Committee).
- Receipt and review of regular reports on internal controls processes and management from the Audit and Risk Committee.
- Annual assessment of significant risks and effectiveness of internal controls.
- Each instance of delegation of any portfolio management function or risk management functions.
- Approval of the raising of new capital and major financing facilities.
- Appointment or removal as required of the Company's principal advisers, including the Company's AIFM, the investment adviser, reporting accountants, auditor (following appropriate recommendation by the Audit and Risk Committee), tax advisers, the company secretary/administrator, the registrar, receiving agent, valuer, the sponsor/financial adviser, the broker/bookrunner, PR firm and/or legal counsel (following appropriate recommendation by the Management Engagement Committee).
- Approval of acquisitions.

The provision of administration and governance services has been delegated to JTC (UK) Limited. The Board has delegated responsibility for day to day operational decisions relating to the Company's projects to the Investment Adviser.

## RELATIONSHIP WITH THE AIFM

The AIFM provides certain services in relation to the Company and its portfolio, which include risk management and portfolio management, based on advice from the Investment Adviser, in accordance with the Company's investment policy. The AIFM's duties under the AIFM Agreement dated 14 October 2021 include complying with the Company's investment policy and analysing the performance of the Company's investments.

# CORPORATE GOVERNANCE REPORT **CONTINUED**

The AIFM is required to provide all risk management services to the Company as required by the EU AIFM Directive and the UK AIFM Regime including (i) the implementation of adequate risk management systems to identify, measure, manage and monitor appropriately all risks relevant to the Company's investment strategy and to which the Company is or may be exposed, (ii) ensuring that the risks associated with each investment position of the Company and their overall effect upon the Company's portfolio can be properly identified, measured, managed and monitored on an ongoing basis, including through the use of appropriate stress testing procedures, (iii) advising the Board on the establishment and adjustment of quantitative and qualitative risk limits for the Company, taking into account all relevant risks and (iv) reviewing the risk management systems at least annually and adapting them where necessary. The AIFM also provides guidance to the Company on its compliance with the requirements of the EU AIFM Directive and the UK AIFM Regime that apply in respect of marketing of the Shares of the Company in the UK and the EEA, as applicable.

For the period under review the Management Engagement Committee evaluated the performance of the AIFM. The Board accepted the Management Engagement Committee's recommendation that the continuing appointment of the AIFM was in the best interests of the Company and its Shareholders.

## RELATIONSHIP WITH THE INVESTMENT ADVISER

The Investment Adviser provides investment advisory services (and certain other services related to the Company's investments) and acts within the strategic guidelines set out in the Company's investment policy. These services are defined in more detail below. The Investment Adviser reports to the AIFM and the Company. There is a clear division of responsibilities between the Board and the Investment Adviser and the AIFM.

The Investment Advisory Agreement dated 14 October 2021 between (1) the Investment Adviser, (2) the Company and (3) the AIFM details the responsibilities of the Investment Adviser which include, providing certain investment advisory services to the AIFM copied to the Company, and certain other services to the Company which are unrelated to investment advice, including development and day-to-day operation of the Projects.

The Investment Adviser must (a) advise the AIFM on the Company's investments in accordance with the Company's investment objective, investment policy and investment restrictions and ESG policy, including making recommendations based on its expert opinion to the AIFM in respect of the purchase, sale or disposal of the Company's investments and arranging the purchase and sale of such investments in accordance with the AIFM's directions; (b) assist in the preparation of periodic NAV calculations as provided for in the Prospectus and (c) prepare quarterly reports to be provided to the AIFM and the Board, including pursuant to the Company's ESG policy and any applicable KPIs pursuant to the Company's ESG policy from time to time and assisting the AIFM in respect of quarterly reporting to the Company's board of directors.

Investment Advisory services provided by the Investment Adviser also include (a) making recommendations regarding the manner in which monies should be retained or realised and advise on the use of borrowing in accordance with the investment policy, (b) monitor the performance of the revenue optimiser(s) appointed in respect of the Company's assets and the revenue performance of the same and advise the Company and/or the AIFM on behalf of the Company in respect of revenue optimisation strategy, (c) providing assistance in respect of the Company's marketing endeavours, including attending investor and other marketing meetings and assisting with production of marketing materials for distribution to investors and prospective investors, (d) assisting with implementation of appropriate risk measurement and management standards and procedures, (e) providing material for inclusion in annual and other reports of the Company, and (f) monitoring investment limits and restrictions and giving instructions for operation of bank accounts.

Regarding the other services, the Investment Adviser will (a) advise and facilitate the engagement by one or more project companies of independent third party suppliers and contractors to provide services to the construction, commissioning and ongoing management of the Projects; (b) provide certain project management and supervision services; (c) provide certain community and stakeholder services; (d) certain services regarding permits, approvals and compliance; (e) certain occupational health and safety and ESG services; and (f) certain technical and monitoring services.

For the period under review the Management Engagement Committee evaluated the performance of the Investment Adviser. The Board accepted the Management Engagement Committee's recommendation that the continuing appointment of the Investment Adviser was in the best interests of the Company and its Shareholders.

## RELATIONSHIP WITH THE ADMINISTRATOR

JTC (UK) Limited has been appointed as Secretary and Administrator to provide company secretarial, fund accounting and administration services. During the period ended 31 October 2022, as Administrator, JTC (UK) Limited, on behalf of the Directors, was responsible for the maintenance of the books and records, the management of financial records, all cash movements of the Company and the calculation, in conjunction with the Investment Adviser, of the Net Asset Value of the Company. As Company Secretary, JTC (UK) Limited are responsible for regulatory compliance and providing support to the Board's corporate governance process and its continuing obligations as well as general secretarial functions required by the Companies Act 2006.

## BOARD COMMITTEES

The Company has established four committees: the Audit and Risk Committee, the Remuneration and Nomination Committee, the ESG Committee and the Management Engagement Committee. The terms of the references of these committees are available on the Company's website. During the financial period under review all of the Directors served on all of the committees as independent non-executive Directors.

# CORPORATE GOVERNANCE REPORT **CONTINUED**

## BOARD AND COMMITTEE MEETINGS

The Board has a schedule of quarterly meetings with additional meetings as required. The table below sets out the number of scheduled Board and committee meetings held during the year and the number of meetings attended by each Director.

| | Quarterly Board Meetings | Audit and Risk Committee | ESG Committee | Remuneration and Nomination Committee | Management Engagement Committee |
|---|---|---|---|---|---|
| No. of Meetings Held | 4 | 3 | 1 | 1 | 1 |
| Norman Crighton | 4 | 3 | 1 | 1 | 1 |
| Janine Freeman | 4 | 3 | 1 | 1 | 1 |
| Hugh McNeal | 4 | 3 | 1 | 1 | 1 |
| William Rickett | 4 | 3 | 1 | 1 | 1 |
| Shefaly Yogendra | 4 | 3 | 1 | 1 | 1 |

The Board also held a number of ad-hoc Board meetings outside of the scheduled meeting cycle. Matters discussed included fundraising, refinancing and acquisitions and meetings were normally attended by all Board members.

The primary focus at Board meetings has been on delivering the strategy, monitoring performance against strategic objectives, investor relations and asset allocation. This included:

- Approving the deployment of capital raised and progress of construction of the portfolio;
- Finalising the EPC contract for the Company's fifth project at its Little Raith site;
- Agreeing a debt facility of £60m from NatWest to support the acquisition and construction of the first pipeline project;
- Acquisition of the 99 MW/198 MWh Bumpers project in July 2022;
- Raising an additional £14.7 million through a placing in October 2022 by way of the issue of 14.7 million C shares, with proceeds committed against identified pipeline projects;
- Adopting the ESG strategy, following completion of a materiality assessment;
- Reviewing updates from the Investment Adviser, which included health and safety, risk management and ESG; and
- Reviewing updates from other key stakeholders including the broker, Company Secretary, and AIFM.

The Company maintains a register of Directors' conflicts of interest which is considered at all Board meetings, and no significant conflicts of interests were identified during the period. The Board is required to disclose changes or potential new conflicts. The Company Secretary attends all Board meetings and ensures that the Directors have access to all relevant information. In line with the Board's commitment to reducing adverse environmental impacts from its business, wherever possible it makes efficient use of technology. To date all the ad-hoc meetings were held virtually and all Board papers are distributed electronically.

## COMPOSITION, SUCCESSION AND EVALUATION

The Board comprises five Directors and their biographies are on pages 37 and 38 demonstrating the wide range of complementary skills and experience they each bring to the Board. All the Directors are non-executive and, for the purpose of provision 12 of the AIC Code, all are considered to be independent with the Chair being independent on appointment.

The Remuneration and Nomination Committee is responsible for leading the process on appointments, ensuring there are plans in place for orderly succession to the Board and overseeing any other related matters as they arise. This includes ensuring that any appointments and succession plans are based on merit and objective criteria, and within this context, promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Given that the Company was incorporated in 2021, the Board did not consider any changes to the composition of the Board were necessary during the reporting period.

The Remuneration and Nomination Committee carried out an evaluation of the Board and Committees for the period under review which concluded that the Board has the right mix of skills and that the Chair and the Directors are suitability qualified to undertake their responsibilities and perform their duties in respect of managing the Company. It was recognised that it had been a busy year for the Board; that the Board's stringent performance monitoring would need to be extended as the Company's assets become operational; and that the Board should continue to have in depth examinations of developments in energy storage technology and its markets. Given that the Company was incorporated in 2021, the Board did not consider it appropriate to have an externally facilitated Board evaluation for the reporting period nor has there been a focus on succession planning. This will be kept under review.

# CORPORATE GOVERNANCE REPORT **CONTINUED**

## BOARD DIVERSITY

The Board comprises five independent non-executive directors of whom 40 per cent. are female. The Board is committed to diversity, which includes diversity of experience, background and perspective, and meeting the recommendations of the Hampton Alexander Review of female representation and gender imbalance on FTSE 350 boards (now called the FTSE Women Leaders Review) and the Parker Review into the ethnic diversity of UK boards. The Board will always appoint the best person for the job. It will not discriminate on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability. The Board considers the real value of diversity comes from ensuring inclusion of different views arising from lived experiences and skills.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges that it is responsible for establishing and maintaining the Company's system of risk management and internal controls, which is reviewed fully for effectiveness on an annual basis, and has delegated this to the Audit and Risk Committee. The Board has identified and assessed the principal and emerging risks faced by the Company and how they are being mitigated. These are set out in the Principal Risks and Uncertainties section on pages 28 to 32. The Investment Adviser regularly reports to the Board on risk. During the period, the Audit and Risk Committee reviewed and provided feedback to the Investment Adviser on the full risk register.

The Board has delegated certain of its day-to-day activities to the AIFM, the Investment Adviser and the Administrator, and has clearly defined their roles, responsibilities and authorities. The actions of these service providers are monitored at quarterly and ad-hoc Board meetings and their performance reviewed annually by the Management Engagement Committee.

At each scheduled quarterly meeting the Board receives reports from the AIFM, the Administrator and Company Secretary and the Investment Adviser to provide it with assurance that appropriate oversight is in place. The Board is satisfied with the controls and risk management systems currently in place for assessing, managing and monitoring risks applicable to such service providers, including policies covering whistleblowing and helping to prevent bribery, corruption and fraud. The Board has also received reports to provide it with assurance that appropriate and reasonable oversight of controls is in place at its key third party providers to manage risks. The Chair of the Board has also visited the Company's Pillswood, Farnham and Broadditch sites where he saw first-hand the controls in place for the Company's contractors.

## GOING CONCERN

Under the AIC Code, the Board needs to consider whether it is appropriate to adopt the going concern basis of accounting in preparing these Financial Statements. The Board continues to adopt the going concern basis and the detailed consideration is contained on page 35.

## VIABILITY STATEMENT

The viability statement, under which the Directors assess the prospects of the Group over a longer period, is contained on page 35.

## RELATIONS WITH SHAREHOLDERS

The Board values interactions with Shareholders and welcomes the views of Shareholders, who may contact the Board through the Company's broker at: Berenberg_Harmony@berenberg.com or the Company Secretary at HarmonyEnergyIncomeTrustplc@jtcgroup.com. The Investment Adviser regularly engages with principal Shareholders and key sector analysts and is available to meet with Shareholders if requested. The Chair has met with any Shareholder who requested a meeting during the year and will continue to do so.

The Board receives comprehensive Shareholder reports quarterly from the Company's advisor and regularly monitors the views of Shareholders and the Shareholder profile of the Company.

The first annual general meeting of the Company will be held on 22 March 2023 and Shareholders will have the opportunity to engage with the Board. In addition to the formal business of the AGM, representatives of the Investment Manager will also be available to answer any questions a Shareholder may have. If shareholders are not able to attend the AGM in person, Shareholders will be given the opportunity to ask questions in advance of the AGM, with answers to any questions received published on the Company's website.

Separate resolutions are proposed at the AGM on each substantially separate issue. All voting at the AGM will be on a poll with the results being announced as soon as practical following the AGM via RIS announcement.

## RELATIONS WITH OTHER STAKEHOLDERS

Examples of stakeholder engagement and the effect on stakeholders of principal decisions taken by the Company during the year can be found in the s172 Statement on pages 33 and 34.

## ADDITIONAL DISCLOSURES

Additional disclosures required by Schedule 7 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) are contained in the Directors' Report on pages 39 to 40.

Approved on behalf of the Board By:

**Norman Crighton**
Chair

# DIRECTORS' RESPONSIBILITY STATEMENT

## THE DIRECTORS ARE RESPONSIBLE FOR PREPARING THE ANNUAL REPORT AND FINANCIAL STATEMENTS IN ACCORDANCE WITH APPLICABLE LAW AND REGULATIONS.

As a company traded on the London Stock Exchange, Harmony Energy Income Trust Plc is subject to the FCA's Listing Rules and Disclosure Guidance and Transparency Rules, as well as to all applicable laws and regulations in England and Wales where it is registered.

The Annual Report and Financial Statements have been prepared in accordance with UK adopted international accounting standards. Under company law, the Directors must not approve the Financial Statements unless they are satisfied they give a true and fair view of the state of affairs of the Company and of the profit or loss for the period. In preparing these Financial Statements, the Directors should:

- select suitable accounting policies in accordance with IAS 8 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation;
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

### WEBSITE PUBLICATION

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO DISCLOSURE GUIDANCE AND TRANSPARENCY RULES 4

The Directors confirm to the best of their knowledge that:

- the financial statements have been prepared in accordance with UK adopted international accounting standards and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- the annual report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

### DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Signed by order of the Board,

**Norman Crighton**
Chair
22 February 2023

# REPORT OF THE AUDIT AND RISK COMMITTEE

## 1. ROLE OF THE AUDIT AND RISK COMMITTEE

The AIC Code recommends that the Board should establish an Audit and Risk Committee comprising at least three, or in the case of smaller companies, two independent non-executive Directors. The Audit and Risk Committee comprises all the independent non-executive Directors.

The Audit and Risk Committee examines the effectiveness of the Company's risk management and internal control systems. It reviews the interim and annual reports and also receives information from the AIFM and the Investment Adviser. It also reviews the scope, results, cost effectiveness, independence and objectivity of the external auditor. The Audit and Risk Committee reports formally to the Board after any meeting held. The Audit and Risk Committee reviews its terms of reference at every meeting and any changes are approved by the Board. The terms of reference are available on the Company's website at: https://www.heitp.co.uk/investors/shareholder-documents/.

## 2. MEMBERSHIP

The Chair of the Audit and Risk Committee, Janine Freeman, is a Chartered Accountant, qualifying at Deloitte & Touche. She is an experienced senior energy industry executive and non-executive director. The Board is satisfied that Janine has recent and relevant financial experience as required under the AIC Code. The other members of the Audit and Risk Committee are Norman Crighton, Hugh McNeal, William Rickett and Shefaly Yogendra, all of whom have extensive recent and relevant competence in the sector in which the Company operates. The Board considers that the appointment of Norman Crighton as a member of the Audit and Risk Committee, notwithstanding his appointment as Chair of the Board, is appropriate, given that he was independent on his initial appointment and has continued to be throughout his tenure. The biographies of the Audit and Risk Committee members are outlined on pages 37 and 38 of this Annual Report.

As part of the annual Board evaluation the Audit and Risk Committee and the Chair respectively were reviewed and found to be effective.

## 3. MEETINGS

The Audit and Risk Committee met 3 times during the period under review and meetings were attended by all committee members, as well as representatives of the Investment Adviser, the AIFM, the Company Secretary and the Auditor.

The Audit and Risk Chair had regular meetings with the Auditor. Additional meetings are convened by the Company Secretary at the request of the Audit & Risk Chair as necessary.

## 4. EXTERNAL AUDITOR

Ernst & Young ("**EY**") were appointed as the Company's auditor on 27 June 2022. Mike Gaylor has been the lead audit partner since. The appointment of the auditor is reviewed annually by the Audit and Risk Committee and the Board and is subject to approval by Shareholders. In accordance with the Financial Reporting Council's ("**FRC**") guidance, the audit will be put out to tender within ten years of the initial appointment. Additionally, the audit partner must be rotated every five years and is next eligible for rotation in 2026.

The audit plan was presented to the Audit and Risk Committee at its September 2022 meeting, ahead of the commencement of the Company's period end audit. The audit plan sets out the audit process, materiality scope and significant risks. In respect of the period under review, the Audit and Risk Committee considered the appointment, performance and compensation of EY.

During the period the Audit and Risk Committee met with key members of the audit team before the interim and annual results were prepared to plan and discuss the scope or review and ensure its robustness. Meetings were held with the auditor to discuss the details of the external audit and interim review and to consider and evaluate any findings in depth.

As part of the annual reporting process, EY have formally confirmed their independence. The Audit and Risk Committee discussed the effectiveness of the auditor and is of the opinion that the audit team assigned by EY to the Company has a good understanding of the Company's business, and the Audit and Risk Committee has recommended to the Board that a resolution to appoint EY is proposed to Shareholders at the forthcoming Annual General Meeting.

## 5. NON-AUDIT WORK

The Audit and Risk Committee has implemented a policy for the supply of non-audit services provided by the external auditor, which is consistent with the FRC Revised Ethical Standards, published in 2019, to ensure there are no circumstances where a service provided could constitute a conflict or potential conflict of interest that would impair the objectivity and independence of the auditor. The policy sets out the specific activities that may be provided by the auditor which are closely related to the audit and/or required by law or regulation, with all other activities being disallowed. During the reporting period the policy was reviewed by the Committee.

During the reporting period the auditor was not engaged to carry out any non-audit work for the Company.

## 6. FINANCIAL REPORTING AND SIGNIFICANT ACCOUNTING MATTERS

The Audit and Risk Committee is responsible for reviewing financial reporting and advising the Board on whether the Annual Report and Financial Statements are fair, balanced, and understandable, as required by the AIC Code. It introduced a formal annual report governance process which includes bi weekly meetings attended by the Investment Adviser, Administrator, Auditor and Audit and Risk Committee Chair. At these meetings, updates were given on the process in place to produce the annual report, which included thorough assessment by all parties. Comprehensive and transparent discussions were held on the contents of the annual report and drafts were reviewed.

Separately, the Chair held meetings with the Board on progress as well as with individual stakeholders.

The Audit and Risk Committee also met with the Investment Adviser, the Administrator and the Auditor to talk through the process and query their findings and all parties confirmed they were not aware of any material misstatements to the annual report.

Additionally, the Audit and Risk Committee assesses the significant financial reporting issues and judgments made when preparing the Annual Report and evaluates the appropriateness of the accounting policies adopted.

As a result of the comprehensive reviews, feedback and recommendation from the Audit and Risk Committee, the Board has concluded that the Annual Report for the period ended 31 October 2022, taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position, performance, business model and strategy.

Due to the materiality of related party transactions, the Board considers them to be a significant accounting matter and has carefully considered the adequacy of their disclosure in the annual report.

## 7. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them unless their main purpose and activities are providing services related to the Company's investment activities. The Committee has evaluated whether the Company is an investment entity and has concluded that it meets the definition set out in IFRS 10.

Investments are designated at fair value in accordance with the Company's accounting policy. As a result, the Audit and Risk Committee examined the procedures and application of valuation policies. The valuation of these investments is the most influential area of judgement in the annual report. The income projections, the discount rates used, the rate of inflation, and the project costs make up the main estimates and assumptions. The Audit and Risk Committee specifically questioned the appropriateness of the discount rate used and carefully considered the impact of macroeconomic and industry-related factors on income recognition and associated assumptions in relation to the valuation of the assets that have been included in the 31 October 2022 valuation.

In the Company's annual report, the uncertainty associated in determining the fair value of investment valuations represents a significant risk. The Investment Adviser's fee is calculated based on the NAV and this presents an inherent risk of management override.

The Investment Adviser, with assistance from the Administrator, is responsible for calculating the NAV prior to approval by the Board. On a quarterly basis, the Investment Adviser provides a detailed NAV analysis highlighting any movements and assumption alterations to the prior quarter NAV. This is considered, and challenged by the Chair of the Audit and Risk Committee prior to a recommendation for approval being made to the Board.

At period end Mazars were engaged as the independent valuer to support the Audit and Risk Committee in forming a view on the reasonableness of the valuations. The Audit and Risk Committee is satisfied that the key estimates and assumptions used within the valuation model are appropriate and that the investments have been fairly valued.

Service fee income is recognised via fees recharged to each subsidiary regarding the Company's resources used for project related matters. The recharge rate was considered by the Board and is a significant estimate.

## 8. INTERNAL AUDIT

The Audit and Risk Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company as an investment company with external service providers. The internal controls framework for the Company has been developed and is delivered primarily through the risk management process. This process is described in detail in the Principal Risks and Uncertainties section on pages 28 to 32 and ensures that appropriate measures, controls, checks and balances are implemented to manage and monitor all risks, including internal and financial controls. In addition, the external period end audit has a strong focus on financial controls and recommendations following any testing carried out by the Auditors are followed up by the Audit and Risk Committee. Finally, reports on the internal controls of the Company's key service providers are reviewed by the Board at each Board meeting.

## 9. WHISTLEBLOWING

The Audit and Risk Committee has arrangements by which staff of the Investment Adviser and Administrator and other service providers as the Committee sees fit may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and satisfy itself that arrangements are in place for the proportionate and independent investigation of such mattes and for appropriate follow up action. These arrangements are embedded into the Investment Adviser and Administrator's internal policies.

There were no instances of whistleblowing during the period.

**Janine Freeman**
Chair of the Audit and Risk Committee
22 February 2023

# REPORT OF THE REMUNERATION AND NOMINATION COMMITTEE

The Company has set up a Remuneration and Nomination Committee which consists of all of the Directors and is chaired by William Rickett. The Remuneration and Nomination Committee meets at least once a year and more often when required.

The Remuneration and Nomination Committee's main functions include:

- agreeing the policy for the remuneration of the Directors and reviewing any proposed changes to the policy;
- considering and, if necessary, appointing independent professional remuneration advice;
- making recommendations to the Board on Board tenure and succession planning, taking into account the existing balance of skills, knowledge and experience on the Board and the advantages of diversity; and
- agreeing the arrangements for evaluating the performance of the Board, its Committees and the Directors.

During the period under review the Committee met once and all members were present. The Committee discussed Board composition, tenure and succession, its approach to promoting diversity, and the policy to be adopted on remuneration. The Committee also agreed the arrangements for evaluating Board performance. As part of the overall Board evaluation, it was concluded that there was a good balance of skills between the Directors on the Remuneration Committee.

The Committee reports formally to the Board after any meeting held. The Committee reviews its terms of reference at every meeting and any changes are approved by the Board. The terms of reference are available on the Company's website at: https://www.heitp.co.uk/investors/shareholder-documents/

# DIRECTORS' REMUNERATION REPORT

## ANNUAL STATEMENT

This report sets out the Company's remuneration policy and explains how it has been implemented by the Board. It also provides Shareholders with details of the Directors' remuneration. For the Company's first year of operation, no change in the Board's remuneration was proposed by the Remuneration and Nomination Committee and it remained at the levels disclosed at the IPO. An increase in Directors' remuneration below the current level of inflation is proposed for the financial year ending 31 October 2023.

The Board has applied, and continues to apply, Principles 9.1 of the AIC Code 2019 when considering Directors' remuneration. This requires the Board to set a formal and transparent procedure for developing its remuneration policy with no director being involved in deciding their own remuneration outcome; to design remuneration policies and practices that support the Company's strategy and promote its long-term sustainable success; and to ensure Directors to exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and wider circumstances. For the purposes of recruitment, the same remuneration policy will be applied.

## DIRECTORS' REMUNERATION POLICY

The Company's policy is to set Directors' fees at a level which will enable the Board to recruit and retain the skills required to run the Company in the best interests of its Shareholders. In judging the level of fees required to achieve this, the Company will take account of the time commitment required of Directors and the need to be competitive with the fees paid to non-executive directors of similar companies. The Company may periodically choose to benchmark Directors' fees with an independent review, to ensure they remain fair and reasonable.

The aggregate remuneration of the Directors for their services shall not exceed £400,000 per annum or such higher figure as the Company may by ordinary resolution determine and such remuneration shall be divided amongst the Directors as they shall agree, or in default of agreement, equally. Such remuneration shall be deemed to accrue from day to day. The Directors may also be paid by way of additional remuneration such further sums as the Board may from time to time determine and any such additional remuneration shall be divided among the Directors as they shall agree or, in default of agreement, equally.

The Directors are entitled only to their annual fee and their reasonable expenses. No element of the Directors' remuneration is performance related, nor does any Director have any entitlement to pensions, share options or any long-term incentive plans from the Company.

The Directors hold their office in accordance with the Articles of Association and their appointment letters. No Director has a service contract with the Company, nor are any such contracts proposed. The Directors' appointments can be terminated in accordance with the Articles and without compensation.

Under the Company's Articles of Association, all Directors are entitled to remuneration determined from time to time by the Board.

## DIRECTORS' REMUNERATION (AUDITED)

In accordance with the terms of their appointment each Director was entitled to an annual fee of £40,000 per annum. The Chair and Audit and Risk Committee Chair were paid an additional sum of £10,000 and £5,000 respectively for the additional responsibility attached to their respective roles. In the light of current inflation rates, the Board has agreed, on the recommendation of the Remuneration and Nomination Committee, that Directors' fees should be increased by 5 per cent. for the year starting 1 November 2022. From that date each Director will receive an annual fee of £42,000 with the Chair receiving an additional £10,500 and the Audit and Risk Committee Chair receiving an additional £5,250. In determining the Directors' remuneration, neither the Company nor the Remuneration and Nomination Committee has oversight of the remuneration arrangements of its subsidiaries.

The total emoluments of each person who served as a Director during the year are set out in the table on the following page. There are no performance-related elements to Directors' fees and the Company does not operate any type of incentive, share scheme, award or hold options to acquire shares in the Company. There were no other remuneration fees or taxable benefits paid to any Director during the period. The table also shows the fees proposed for the period ending 31 October 2023.

# DIRECTORS' REMUNERATION REPORT **CONTINUED**

| Director | For the Period ended 31 October 2022* | | | |
|---|---|---|---|---|
| | Fees £ | Taxable Expenses £ | Total £ | Expected Fees for the year ended October 2023** £ |
| Norman Crighton (Chair) | 52,692 | – | 52,692 | 52,500 |
| Janine Freeman | 47,423 | – | 47,423 | 47,250 |
| Hugh McNeal | 42,154 | – | 42,154 | 42,000 |
| William Rickett | 42,154 | – | 42,154 | 42,000 |
| Shefaly Yogendra | 42,154 | – | 42,154 | 42,000 |
| **Total** | **226,577** | **–** | **226,577** | **225,750** |

*From 1 October 2021 to 31 October 2022
**From 1 November 2022 to 31 October 2023

## RELATIVE IMPORTANCE OF SPEND ON PAY

The table below compares the total level of Directors' remuneration compared to shareholder distributions by way of dividends and share buybacks in respect of the financial period ended 31 October 2022.

| | Payments made during the period ended 31 October 2022 £ | Directors' fees as a percentage of: |
|---|---|---|
| Directors' Remuneration | 226,577 | |
| Dividends paid | 2,100,000 | 10.78 |
| Buyback of Ordinary Shares | – | – |
| Management fee and expenses | 1,848,845 | 12.25 |

The management fee and expenses which have been included give Shareholders a greater understanding of the relative importance of spend on pay Distributions to Shareholders by way of dividend provide a comparison of the Shareholders' returns against Directors' remuneration.

## DIRECTORS' SHAREHOLDINGS (AUDITED)

The Directors' beneficial interests (including those of connected persons) at the period end and at the date of this report in the issued share capital of the Company are outlined below. There is no minimum holding requirement that the Directors need to adhere to.

| Director | At 31 October 2022 | | | As at the date of this report | |
|---|---|---|---|---|---|
| | Ordinary Shares | C Shares | Percentage of issued share capital | Ordinary Shares | Percentage of issued share capital |
| Norman Crighton | 10,000 | 5,000 | 0.00% | 13,933 | 0.01% |
| Janine Freeman | 10,000 | 5,000 | 0.00% | 13,933 | 0.01% |
| Hugh McNeal | 10,000 | 5,000 | 0.00% | 13,933 | 0.01% |
| William Rickett | 10,000 | 5,000 | 0.00% | 13,933 | 0.01% |
| Shefaly Yogendra | 5,000 | 5,000 | 0.00% | 8,933 | 0.00% |

On 31 January 2023 the C Shares were converted into new Ordinary Shares on a conversion ratio of 0.786735 new Ordinary Share for every 1 C Share held.

# DIRECTORS' REMUNERATION REPORT **CONTINUED**

## DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company. Each of the Directors is engaged under a letter of appointment with the Company. The terms of the appointment provide that each Director is appointed for a period commencing 12 October 2021 until the conclusion of the Company's first Annual General Meeting.

Those terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office. Each Director is also subject to the rotation of Directors provisions set out in the Articles which provide that a Director appointed by the Board during the year is required to retire and seek election by Shareholders at the next AGM following their appointment.

At the Company's AGM on 22 March 2023, each of the Directors shall be submitting themselves for election. Thereafter, in accordance with the provision of the AIC Code, the Directors intend to offer themselves for re-election annually, notwithstanding that under the Articles they are only required to submit themselves for re-election at least once every three years. The Board believe, following a formal performance and Board evaluation, as detailed on page 49, all the Directors continue to be effective, providing considerable experience and demonstrating commitment to their roles.

## TOTAL SHAREHOLDER RETURN

In setting the Directors' remuneration, consideration is given to the size and performance of the Company. The graph below shows the total shareholder return of the Company's Ordinary Shares since IPO against the FTSE All Share index, which the Board has deemed to be the most appropriate comparator for the Company's performance, since it includes smaller companies.

## CONSIDERATION OF SHAREHOLDER VIEWS

The fees proposed for Directors were fully disclosed at the Company's IPO. No views on the level of fees were expressed by Shareholders either then or in subsequent contact. The AGM to be held on 22 March 2023 will give Shareholders an opportunity to vote on remuneration.

## COMMITTEE MEMBERSHIP

The membership, activities and role of the Committee are discussed in the Remuneration and Nomination Committee Report on page 49.

## STATEMENT OF VOTING AT GENERAL MEETING

Under s439 of the Companies Act 2006, companies are required to ask shareholders to approve the annual remuneration paid to directors every year and to formally approve the directors' remuneration policy on an annual or on a three yearly basis. Any change to the Directors' remuneration policy will require Shareholder approval.

As the AGM to be held in March 2023 will be the first opportunity for Shareholders to vote on remuneration, there is no voting disclosure in this report. Accordingly, ordinary resolutions will be put to Shareholders at the forthcoming AGM to be held on 22 March 2023, to receive and adopt the Directors' Remuneration Report and to receive and approve the Directors' Remuneration Policy. If approved, the Remuneration Policy will be effective from that date.

Signed on behalf of the Board

**William Rickett**
Chair of the Remuneration and Nomination Committee
22 February 2023

**Relative growth of stock prices for 09 November 2021 - 31 October 2022**

# REPORT OF THE MANAGEMENT ENGAGEMENT COMMITTEE

The Company has set up a Management Engagement Committee which consists of all of the Directors and is chaired by Hugh McNeal. The Management Engagement Committee meets at least once a year and more often when required.

The three principal duties of the Management Engagement Committee are to:

- consider the terms of appointment of the AIFM, the Investment Adviser and other service providers;
- annually review those appointments and the terms of engagement, including ensuring fees paid are sufficient to attract and retain staff; and
- monitor, evaluate and hold to account the performance of the AIFM, the Investment Adviser, the other service providers and their key personnel against set criteria.

During the period under review the Management Engagement Committee met once and all members were present. Representatives of the Company Secretary were also present. The Management Engagement Committee reports formally to the Board after any meeting held.

During the period under review the Company adopted a supplier code of conduct (the "Code"), the purpose being to ensure best practice supply chain requirements are taken into account by all key service providers, who will be asked to confirm their agreement to the Code. Requirements of the Code include adherence to anti-bribery and corruption policies that align with those of the Company. Longer term, the intention is to define supply chain targets with objectives for sustainability with supplier audits being carried out to monitor compliance with the Code. The Management Engagement Committee will be responsible for monitoring compliance with the Code and assessing service providers' progress against ESG goals.

The Management Engagement Committee reviews its terms of reference at every meeting and any changes are approved by the Board. The terms of reference are available on the Company's website at: https://www.heitp.co.uk/investors/shareholder-documents/.

## THE INVESTMENT ADVISER

Harmony Energy Advisors Limited has been appointed as Investment Adviser under the terms of an Investment Advisory Agreement with the Company. The Investment Adviser is a wholly owned subsidiary of Harmony Energy Limited, a leading UK battery energy storage project developer with an established track record in developing, funding and supervising the construction of such projects and other renewable generation projects in Great Britain. The management team of the Investment Adviser have been exclusively focussed on the energy storage sector (across multiple projects) in Great Britain for over six years, both from the point of view of asset owner/developer and in a third party advisory capacity. The management team has relevant experience in revenue optimisation software development specific to battery energy storage in Great Britain. This allows the Investment Adviser a high degree of understanding of relevant revenues available to battery energy storage, how a battery energy storage project can maximise its revenues, including through revenue optimisation services, as well as knowledge of the most effective providers of those services available in the market in Great Britain.

A summary of the services provided by the Investment Adviser to the Company are set out in the Corporate Governance statement on pages 41 to 44.

## EVALUATION OF THE INVESTMENT ADVISER

The Management Engagement Committee evaluated the performance of the Investment Adviser during the year. This included reviewing the skills matrix of the Investment Adviser's key personnel and the Investment Adviser's internal control financial framework. The Management Engagement Committee was impressed with the level of detail provided by the Investment Adviser to the questions asked.

The Management Engagement Committee also reviewed the Investment Adviser's investment performance, its compliance with the Investment Advisory Agreement as well as value for money. During the period, the Company agreed a debt facility of £60 million from NatWest to support the acquisition and construction of the first pipeline project, acquired an additional 99 MW/198 MWh project, raised an additional £14.7 million through a placing in October 2022 by way of the issue of 14.7 million C Shares, with proceeds committed against identified pipeline projects and adopted an ESG strategy, following completion of a materiality assessment;

Since the reporting period, working closely with the Investment Adviser, the Company completed construction and commenced commercial operations on the Pillswood project, which (at 98MW/196 MWh) constitutes a significant proportion of the Company's portfolio. In addition, the Company has successfully extended its debt facility and executed construction contracts in relation to two of three projects acquired in December 2022. Following completion of the review the Management Engagement Committee was satisfied with the service provided, that the remuneration paid was reasonable and recommended to the Board that the continued engagement of the Investment Adviser was in the best interests of Shareholders.

## EVALUATION OF THE ALTERNATIVE INVESTMENT FUND MANAGER

In accordance with the terms of a Management Agreement, JTC Global AIFM Solutions Limited has been appointed to act as alternative investment fund manager, providing risk management and portfolio services to the Company. The AIFM is licensed and regulated by the Guernsey Financial Services Commission. The Management Engagement Committee reviewed the performance of the AIFM during the year, which included reviewing value for money and the quality of service provided. The Management

# REPORT OF THE MANAGEMENT ENGAGEMENT COMMITTEE **CONTINUED**

Engagement Committee was satisfied with the service provided, that the AIFM had complied with the relevant laws and regulations and the level of remuneration paid, and recommended to the Board that the AIFM's continued appointment was in the best interests of Shareholders.

## EVALUATION OF KEY SERVICE PROVIDERS

JTC (UK) Limited is appointed as Company Secretary and Administrator and attends all Management Engagement Committee meetings, but is not present in discussions regarding its own performance. The Management Engagement Committee reviewed the performance of the Administrator and Company Secretary and concluded it was satisfactory. The Board are responsible for the appointment or removal of the Company Secretary.

The Management Engagement Committee carried out an evaluation of the Company's wider service providers, including the registrars, broker, legal firms and consultants providing specialist advice and support on ESG and sustainability issues. The evaluation included value for money, governance, cyber security and data protection, all legal requirements, operating and internal controls as well as ESG policies and achievement of policy goals. There are no issues to report and the Management Engagement Committee highlighted to the Board the high level of ESG and sustainability policies and activity of some of the Company's service providers.

## SELF-EVALUATION

The Management Engagement Committee carried out a self-evaluation and was satisfied that it was operating effectively. As this was the Company's first year of operation it was agreed that an external valuation was not considered necessary, but this would be kept under review.

**Hugh McNeal**
Chair of the Management Engagement Committee
22 February 2023

# INDEPENDENT AUDITOR'S REPORT

## OPINION

We have audited the financial statements of Harmony Energy Income Trust Plc for the period ended 31 October 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 October 2022 and of its profit for the period then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## INDEPENDENCE

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

## CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Confirmation of our understanding of the Company's going concern assessment process and engaged with the Directors and the Company Secretary to determine if all key factors were considered in their assessment. We considered whether the factors taken account of in the directors' assessment addressed those matters which we considered important.
- Inspection of the Directors' assessment of going concern, including the cash flow forecast, for the period to 30 June 2024 which is at least twelve months from the date these financial statements were authorised for issue. In preparing the revenue forecast, the Company has concluded that it is able to continue to meet its ongoing costs as they fall due.
- Review of the factors and assumptions, including the impact of the current economic environment and other significant events that could give rise to market volatility, as applied to the cash flow forecast. We considered the appropriateness of the methods used to calculate the cash flow forecast and determined, through testing of the methodology and calculations, that the methods, inputs and assumptions utilised were appropriate to be able to make an assessment for the Company. We also reviewed the Company's assessment of the investment portfolio under stressed market conditions and determined the impact of sensitivities in net asset value from the reverse stress testing performed.
- Consideration of the commitments that have been made with respect to the purchase of unquoted investments and made sure that these have been appropriately taken account of when preparing the cash flow forecast.
- We confirmed through discussion with the Investment Manager and the directors that there was no utilisation of debt facilities. We corroborated these statements during our audit procedures by reviewing bank statements for unrecorded liabilities and review of contracts and agreements and noted that there were no material commitments for the Company as at 31 October 2022.
- Review of the Company's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

# INDEPENDENT AUDITOR'S REPORT **CONTINUED**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period assessed by the directors, being the period to 30 June 2024, which is at least 12 months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

## OVERVIEW OF OUR AUDIT APPROACH

| | |
|---|---|
| **Key audit matters** | • Risk of inaccurate valuation of investments and the resulting impact on the unrealised gains/(losses) in the Statement of Comprehensive Income<br>• Risk of inaccurate revenue recognition, including service fee income |
| **Materiality** | • Overall materiality of £2.72m which represents 1% of net assets, adjusted for the C Class Shares classified as a liability under IFRS. |

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Company has assessed the impact climate change could have on its operations and investments. This is explained in the ESG section on pages 18-27, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on the adequacy of the Company's disclosures in the financial statements as set out in note 2 and conclusion that climate risk does not materially impact the estimates and assumptions used in determining the fair value of the investments. We also challenged the directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT **CONTINUED**

| Risk | Our response to the risk | Key observations communicated to the Audit and Risk Committee |
|---|---|---|
| **Risk of inaccurate valuation of investments and the resulting impact on the unrealised gains/(losses) in the Statement of Comprehensive Income**<br>*Refer to the Audit and Risk Committee Report (page 46); Accounting policies (page 67); and note 18 of the Financial Statements (page 78)*<br>The valuation of the investment portfolio as at 31 October 2022 was £145.69m consisting of the Company's investments in battery storage assets through its subsidiaries. The Company meets the definition of an 'investment entity' in accordance with IFRS 10, thus it values its investment in its subsidiaries at fair value through profit or loss.<br>The accurate valuation of investments is fundamental to the Company's financial performance. The return generated by the investment portfolio is a key driver of the Company's returns.<br>Due to the nature of the investment portfolio, being unlisted investments with no directly comparable listed investments, the underlying assumptions that drive the value of the asset are subjective. As a result, the valuation of the portfolio and the resulting impact on the unrealised gains/(losses) in the Statement of Comprehensive Income is susceptible to misstatement. The investment valuation approach requires sufficient rigour to eliminate the susceptibility of the investment valuations to bias.<br>The valuation principles used are based on International Valuation Standards Council ("IVSC") valuation guidelines, using a discounted cash flow ("DCF") methodology. | **We performed the following procedures:**<br>• Gained an understanding of the Investment Manager and directors' processes and controls surrounding investment valuations, by performing a walkthrough to evaluate the design and implementation of controls.<br>• Obtained and reviewed the valuation models of each asset held via the Company's investments in its subsidiaries to validate that the valuation methodology adopted is consistent with the requirements of IFRS and IVSC guidelines.<br>• Corroborated key revenue streams and other valuation model inputs to supporting contracts and external pricing forecasts, as applicable.<br>• Held discussions with the Investment Manager to understand the key drivers to the cash flow projections included in the valuation models and assessed their appropriateness based on the nature of the asset and our understanding of the relevant markets.<br>• For all investments, given this is the first period under audit, engaged EY valuation specialists to assist in challenging the appropriateness of the discount rate used and to assess the impact of macro-economic and industry related factors used in calculating the net present value of the future cash flows.<br>• Checked the clerical accuracy of the valuation models.<br>• We recalculated the unrealised gain/loss in the financial statements based on changes in investment values, purchases and realisations. | Our audit procedures did not identify any material misstatements regarding the risk of incorrect valuation of investments. |

# INDEPENDENT AUDITOR'S REPORT **CONTINUED**

| Risk | Our response to the risk | Key observations communicated to the Audit and Risk Committee |
|---|---|---|
| **Risk of inaccurate revenue recognition, including service fee income**<br>*Refer to the Audit and Risk Committee Report (page 46); Accounting policies (page 67); and note 6 of the Financial Statements (page 70)*<br>As at 31 October 2022, the total revenue was £3.93m, comprising of the service fee income amounting to £1.85m and investment income amounting to £2.08m.<br>Service fee income represents fees charged by the Company to its subsidiaries in relation to project related matters. This is calculated as a percentage of the total operating expenditure based on the proportion of time spent on such matters. Investment income is calculated by multiplying the interest rates with the loan investments.<br>As the Company meets the definition of an 'investment entity' in accordance with IFRS 10 and values its subsidiaries at fair value through profit and loss these fees are shown as income in the Statement of Comprehensive Income. Due to the judgement involved in assessing the proportion of the Companies resources spent on project matters, we consider these fees to be susceptible to misstatement. | **We performed the following procedures:**<br>• Obtained an understanding of how service fee income and investment income is recognised by performing walkthrough procedures to evaluate the design and implementation of controls.<br>• Obtained the Company's assessment of the proportion of resources spent on project related matters.<br>• Reviewed the inputs and assumptions in calculating the service fee income<br>• Recalculated the service fee income based on the intercompany services agreement.<br>• Recalculated the investment income relating to loan interest attributable to the Company from the SPVs, with reference to the contractual agreements. | Our audit procedures did not identify any material misstatements regarding the risk of incorrect revenue recognition, including service fee income. |

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £2.72m, which is 1% of net assets, adjusted for the C Class Shares which are classified as a liability under IFRS. We believe that the net asset value provides us with the most important financial metric on which shareholders would judge the performance of the Company.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.36m. We have set performance materiality at this percentage due to this being the first period of operations for the Company and therefore our first audit.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.14m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

# INDEPENDENT AUDITOR'S REPORT **CONTINUED**

## OTHER INFORMATION

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## CORPORATE GOVERNANCE STATEMENT

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 35;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 35;
- Directors' statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 35;
- Directors' statement on fair, balanced and understandable set out on page 45;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 28;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 45; and;
- The section describing the work of the Audit and Risk Committee set out on page 46.

## RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 45, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# INDEPENDENT AUDITOR'S REPORT **CONTINUED**

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### *Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (UK adopted international accounting standards, the Companies Act 2006, UK Corporate Governance Code, AIC Code of Corporate Governance and The Companies (Miscellaneous Reporting) Regulations 2018) and Section 1158 of the Corporation Tax Act 2010. In addition, we concluded that there are certain significant laws and regulations which may influence the determination of the amounts and disclosures in the financial statements including the Listing Rules of the UK Listing Authority.

- We understood how the Company is complying with those frameworks by making enquiries of the Investment Manager, Company Secretary, and also the directors including the Chair of the Audit and Risk Committee. We corroborated our understanding through our review of board minutes, papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statement. We identified fraud and management override risks in relation to estimation uncertainty relating to the valuation of investments. Our audit procedures stated above in the 'Key audit matters section' of this Auditor's report were performed to address the fraud risk.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the Company Secretary's reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Following the recommendation from the Audit and Risk Committee, we were appointed by the Company on 27 June 2022 to audit the financial statements for the period ended 31 October 2022 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 1 year, covering the period ended 31 October 2022.

- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

## USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature

**Mike Gaylor (Senior statutory auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

22 February 2023

# FINANCIAL STATEMENTS

# STATEMENT OF COMPREHENSIVE INCOME

| | Notes | £<br>Revenue | £<br>Capital | 1 October 2021 to<br>31 October 2022<br>£<br>Total |
|---|---|---|---|---|
| Net gain on investments at fair value through profit and loss | 10 | – | 53,080,091 | 53,080,091 |
| Service fee income | 6 | 1,853,151 | – | 1,853,151 |
| Investment income | 6 | 2,083,035 | – | 2,083,035 |
| | | **3,936,186** | **53,080,091** | **57,016,277** |
| **Expenditure** | | | | |
| Administrative and other expenses | 7 | (3,999,189) | – | (3,999,189) |
| **Profit/(loss) before taxation** | | **(63,003)** | **53,080,091** | **53,017,088** |
| Taxation | 8 | – | – | – |
| **Profit/(loss) after tax and Total Comprehensive Income for the period** | | **(63,003)** | **53,080,091** | **53,017,088** |
| Earnings per share (basic and diluted): | | | | |
| Ordinary Share | 9 | | | 0.25 |

All Revenue and Capital items in the above statement are derived from continuing operations.

The Total column of this statement represents Company's Income Statement prepared in accordance with UK adopted international accounting standards ("**IAS**"). The return on ordinary activities after taxation is the total comprehensive income and therefore no additional statement of other comprehensive income is presented.

The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issue by the Association of Investment Companies ("**AIC SORP**").

The notes on pages 66 to 85 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

| | Notes | 31 October 2022 £ |
|---|---|---|
| **Non-current assets** | | |
| Investments held at fair value | 10 | 145,685,845 |
| | | **145,685,845** |
| **Current assets** | | |
| Trade and other receivables | 11 | 1,381,693 |
| Loan to Shareholder | 12 | 1,443,506 |
| Cash and cash equivalents | 13 | 124,571,626 |
| | | **127,396,825** |
| **Total assets** | | **273,082,670** |
| **Current liabilities** | | |
| Trade and other payables | 14 | 730,364 |
| Financial Liability at fair value | 15 | 14,542,172 |
| | | **15,272,536** |
| **Net current assets** | | **112,124,289** |
| **Total net assets** | | **257,810,134** |
| **Shareholders equity** | | |
| Share capital | 19 | 2,100,000 |
| Capital reduction reserve | 19 | 202,693,046 |
| Revenue reserve | | (63,003) |
| Capital reserve | | 53,080,091 |
| **Total Shareholders' equity** | | **257,810,134** |
| Net asset value per Ordinary share (pence) | 21 | 122.77 |

The Financial Statements of Harmony Energy Income Trust Plc (registered number 13656587) were approved by the Board of Directors and authorised for issue on 22 February 2023. They were signed on its behalf by:

**Norman Crighton**
Chairman
22 February 2023

The notes on pages 66 to 85 form an integral part of these Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

| | Notes | Ordinary Share capital £ | Share premium: Ordinary Shares £ | Capital reduction reserve £ | Revenue reserve £ | Capital reserve £ | Total Shareholders' equity £ |
|---|---|---|---|---|---|---|---|
| **Balance at 1 October 2021** | | – | – | – | – | – | – |
| *Transactions with owners:* | | | | | | | |
| Issue of share capital | 19 | 2,100,000 | 207,900,000 | – | – | – | 210,000,000 |
| Equity issue costs | 19 | – | (3,106,954) | – | – | – | (3,106,954) |
| Transfer to capital reduction reserve | 19 | – | (204,793,046) | 204,793,046 | – | – | – |
| Dividends paid | 19 | – | – | (2,100,000) | – | – | (2,100,000) |
| *Total comprehensive income for the period:* | | | | | | | |
| Profit/(loss) for the period | | – | – | – | (63,003) | 53,080,091 | 53,017,088 |
| **Balance at 31 October 2022** | | **2,100,000** | **–** | **202,693,046** | **(63,003)** | **53,080,091** | **257,810,134** |

The notes on pages 66 to 85 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

| | Notes | 1 October 2021 to 31 October 2022 £ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period | | 53,017,088 |
| Adjustments for non-cash items: | | |
| Net gain on investments at fair value through profit and loss | 10 | (53,080,091) |
| Investment Income | 6 | (2,083,035) |
| Service fee income | 6 | (1,853,151) |
| **Operating cash flows before movements in working capital** | | **(3,999,189)** |
| Increase in trade and other receivables | 11 | (1,381,693) |
| Increase in trade and other payables | 14 | 730,364 |
| **Net cash outflow from operating activities** | | **(4,650,518)** |
| **Cash flows used in investing activities** | | |
| Loan to Shareholder | 12 | (1,443,506) |
| Purchases of Investments | | (65,185,873) |
| **Net cash outflow from investing activities** | | **(66,629,379)** |
| **Cash flows used in financing activities** | | |
| Proceeds from issue of Ordinary Shares | | 186,516,305 |
| Proceeds from borrowings | | 14,542,172 |
| Share issue costs | | (3,106,954) |
| Dividend paid | | (2,100,000) |
| **Net cash inflow from financing activities** | | **195,851,523** |
| **Net increase in cash and cash equivalents for the period** | | **124,571,626** |
| Cash and cash equivalents at the beginning of the period | | – |
| **Cash and cash equivalents at the end of the period** | 13 | **124,571,626** |

The notes on pages 66 to 85 form an integral part of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 OCTOBER 2021 (INCORPORATION DATE) TO 31 OCTOBER 2022

## 1. GENERAL INFORMATION

Harmony Energy Income Trust Plc was incorporated as a Public Company, limited by shares, in England and Wales on 1 October 2021 with registered number 13656587. The registered office of the Company is The Scalpel 18th Floor, 52 Lime Street, London, England EC3M 7AF. The Company's principal activity is to invest in commercial scale battery energy storage and renewable energy generation projects, with an initial focus on a portfolio of utility scale battery energy storage systems ("**BESS**"), located in diverse locations across Great Britain.

## 2. BASIS OF PREPARATION

The audited Annual Report and Financial Statements has been prepared in accordance with UK adopted IAS and in conformity with the requirements of the Companies Act 2006 and also considers the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts", issued by the AIC SORP in April 2021. The Financial Statements are prepared on a historical cost basis, except where balances are recognised at fair value. The principal accounting policies are set out in Note 5.

In terms of the AIC SORP, the Company presents an Income Statement which shows amounts split between those which are revenue and capital in nature. The determination of the revenue or capital nature of a transaction is determined by giving consideration to the underlying elements of the transaction. Capital transactions are considered to be those arising as a result of the appreciation or depreciation in the value of assets due to the fair value movements on investments held at fair value through profit and loss. Revenue transactions are all transactions, other than those which have been identified as capital in nature.

The Company is an investment entity in accordance with IFRS 10 which holds all its subsidiaries at fair value and therefore only prepares separate accounts. The Financial Statements are also prepared on the assumption that approval as an investment trust will continue to be granted.

### FUNCTIONAL AND PRESENTATION CURRENCY

The currency of the primary economic environment in which the Company operates (the functional currency) is British Pounds Sterling which is also the presentation currency.

### GOING CONCERN

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. Bearing in mind the nature of the Company's business and assets, the Directors consider the Company to have adequate resources to continue in operational existence.

The going-concern analysis takes into account expected increases to Investment Adviser's fee in line with the Company's NAV and assumes operating costs continues at the current rate. It is assumed that discretionary dividend payments to shareholders are made at the target annual rate of 8 pence per ordinary share. On this basis the Company will continue to be operational and will have excess cash after payment of its liabilities.

As at 31 October 2022, the Company had net current assets of £112,124,289 and had cash balances of £124,571,626 (excluding cash balances within investee companies), which are sufficient to meet current obligations as they fall due.

The major cash outflows of the Company are the payment of dividends and costs relating to the acquisition of new assets, both of which are discretionary. The Company had no outstanding debt as at 31 October 2022. The financial position of the Company, its cash flows, and liquidity position are described in the Financial Statements and related notes. In addition, note 16 to the Financial Statements includes the policies and processes for managing its capital, its financial risk management, details of its financial instruments and its exposure to credit risk and liquidity risk.

As at 31 October 2022, the Company was a guarantor to its wholly owned subsidiary, HEIT Holdings Ltd in respect of the £60 million debt facility. Post reporting period, this guarantee has been increased to cover the new £110 million debt facility and ancillary revolving credit facility of up to £20 million. Subject to Directors approval, the Company also provides parent company guarantees to subsidiaries in relation to certain construction and/or battery supply contracts. As at 31 October 2022, total committed funding to subsidiaries was £161 million. As at the date of publication, the aggregate outstanding funding commitment stands at £148 million, recognising both expenditure incurred post reporting period as well as new commitments made in relation to the Hawthorn Pit and Wormald Green projects. These commitments are covered by the Company's cash reserves and debt facilities.

As at period end, total committed capital expenditure of subsidiaries was £166 million. As at the date of publication, the aggregate outstanding capital expenditure stands at £148 million, recognising both expenditure incurred post reporting period as well as new commitments made in relation to the Hawthorn Pit and Wormald Green projects. These commitments are covered by the Company's cash reserves and debt facilities.

The Company has no direct exposure to either Ukraine or Russia and therefore does not consider the conflict to have an impact on the going concern operations of the Company.

The Directors considered the impact of climate change on the investments included in Company's financial statements and have assessed that it does not materially impact the estimates and assumptions used in determining the fair value of the investments.

The Directors acknowledge their responsibilities in relation to the financial statements for the year ended 31 October 2022 and the preparation of the financial statements on a going concern basis remains appropriate. The Company expects to meet its obligations as and when they fall due for at least the next twelve months after the date of approval of the financial statements.

As such, they have adopted the going concern basis in preparing the Annual Report and Financial Statements.

## 3. NEW AND REVISED STANDARDS AND INTERPRETATIONS

### NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE

The following standards have been issued but are not effective for this accounting period and have not been adopted early:

- IAS 1 (amended) – Amendments regarding classifications of liabilities, and disclosure of accounting policies – effective from 1 January 2023.
- IAS 8 (amended) – Amendments regarding the definition of accounting estimates – effective from 1 January 2023.

Adoption of the new and revised standards and relevant interpretations in future periods is not expected to have a material impact on the Financial Statements of the Company.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Financial Statements have been consistently applied during the period ended 31 October 2022.

The principal accounting policies applied in the preparation of the Financial Statements are set out below:

### SEGMENTAL INFORMATION:

The Board is of the opinion that the Group is engaged in a single segment business, being the investment in energy storage and complementary renewable energy generation assets, with an initial focus in a diversified portfolio of utility scale battery energy storage systems (**BESS**), located in diverse locations across Great Britain.

### INCOME

Income comprises Investment income and Service fee income. Investment income arising from interest on the portfolio assets loan investments is recognised on an accrual basis in the Revenue account of the Statement of Comprehensive Income. Service fee income is recognised from fees charged to each portfolio company regarding the Company's resources used for project related matters. The Service fee income is recognised in the Revenue account of the Statement of Comprehensive Income.

### EXPENSES

Operating expenses are the Company's costs incurred in connection with the on-going management of the Company's investments and administrative costs. Operating expenses are accounted for on an accruals basis and charged to the Statement of Comprehensive Income. Expenses are charged through the Revenue account except those which are capital in nature, these include those which are incidental to the acquisition, disposal or enhancement of an investment, which are accounted for through the Capital account. In terms of the AIC SORP the Company applies the general accounting basis and charges the full Investment Adviser fees to revenue ("the non-allocation approach"). Costs directly relating to the issue of Ordinary Shares are charged to share premium.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## TAXATION

The Company is approved as an Investment Trust Company ("**ITC**") under sections 1158 and 1159 of the Corporation Taxes Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999 for accounting periods commencing on or after 25 May 2018. The approval is subject to the Company continuing to meet the eligibility conditions of the Corporations Tax Act 2010 and the Statutory Instrument 2011/2999. The Company intends to ensure that it complies with the ITC regulations on an ongoing basis and regularly monitors the conditions required to maintain ITC status.

Current tax is the expected tax payable on any taxable income for the period, using tax rates enacted or substantively enacted at the end of the relevant period. The current tax rate is 19% but this will increase to 25% with effect from 1 April 2023 as announced by the UK Government. This is not expected to have a material impact on the Company.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and call deposit held with the bank on a 32 day notice which can be readily converted to cash. The fixed deposit account held with the bank is used for cash management purposes.

## TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently stated at amortised cost less loss allowance which is determined using the simplified approach to measuring expected credit losses, the effect of which is considered immaterial.

## TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value and subsequently stated at amortised cost.

## EQUITY

Equity instruments issued by the Company are recorded as the amount of the proceeds received, net of directly attributable issue costs. Costs not directly attributable to the issue are immediately expensed in the Statement of Comprehensive Income.

## FINANCIAL INSTRUMENTS

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of amortised cost or fair value through profit or loss. Derivative instruments are measured at fair value through profit and loss.

## FINANCIAL ASSETS

The Company's financial assets, other than cash and cash equivalents and trade and other receivables, are measured at fair value through profit or loss as they are held in the business model whose performance is evaluated and assessed on a fair value basis.

## FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

The Company classifies all financial liabilities as financial liabilities at amortised cost expect the C Share Liability which is measured at fair value through profit or loss.

## RECOGNITION AND DERECOGNITION

Financial assets are recognised on trade date, the date on which the Company commits to purchase or sell an asset. A financial asset is derecognised where the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset. The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

## IMPAIRMENT OF FINANCIAL ASSETS

The Company holds trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such has chosen to apply the simplified approach to measuring expected credit losses, as permitted by IFRS 9, which uses a lifetime expected loss allowance for all trade receivables.

### DIVIDENDS PAYABLE

Dividends are recognised when they become legally payable, as a reduction in equity in the Financial Statements. Interim equity dividends are recognised when paid. Dividends on the shares will be payable quarterly from 2023 onwards, all in the form of interim dividends (the Company does not intend to pay any final dividends).

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

During the period the Directors considered the following significant judgements, estimates and assumptions:

### ASSESSMENT AS AN INVESTMENT ENTITY

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them unless their main purpose and activities are providing services related to the Company's investment activities. To determine that the Company continues to meet the definition of an investment entity, the Company is required to satisfy the following three criteria:

a) the Company obtains funds from one or more investors for the purpose of providing those investors with investment management services;
b) the Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
c) the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company meets the criteria as follows:

- The Company's investment objective is to provide investors with an attractive and sustainable level of income returns, with the potential for capital growth, by investing in commercial scale energy storage and renewable energy generation projects, with an initial focus on a diversified portfolio of battery energy storage systems located in Great Britain ("**Projects**");
- the Company provides investment management services and has several investors who pool their funds to gain access to infrastructure related investment opportunities that they might not have had access to individually; and
- the Company has elected to measure and evaluate the performance of all of its investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to Directors, who use fair value as the primary measurement attribute to evaluate performance.

As at 31 October 2022, the Company had the following subsidiaries;

- Harmony (PW) Limited,
- Harmony (PW) 2 Limited,
- Harmony BD Limited,
- Harmony FM Limited,
- Harmony RH Ltd,
- Daisy No. 2 Limited,
- HEIT Holdings Ltd,
- Harmony BF Limited

In respect of the second criterion, Projects may also be disposed of, or otherwise realised, where the AIFM recommends (acting upon advice given by the Investment Adviser) that such realisation is in the interests of the Company. Such circumstances may include (without limitation) disposals for the purposes of realising or preserving value, or of realising cash resources for reinvestment or otherwise.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

The Directors are responsible for the determination of the Company's investment policy and strategy and has overall responsibility for the Company's activities including the review of investment activity and performance. The Board will also make the decision to acquire or dispose of Projects, based on recommendations made by the AIFM acting upon advice given by the Investment Adviser.

The Directors have evaluated whether the Company is an investment entity and concluded that it meets the definition set out in IFRS 10. The Directors are also of the opinion that the Company meets the essential criteria of an Investment Entity. Therefore, its subsidiaries are measured at fair value through profit or loss, in accordance with IFRS 9 'Financial Instruments'.

### VALUATION OF INVESTMENTS

Significant estimates in the Company's Financial Statements include the amounts recorded for the fair value of the investments. These estimates and assumptions are subject to measurement uncertainty by their nature. The impact on the Company's Financial Statements of changes in future periods may be significant. These estimates are further discussed in note 17.

## 6. INCOME

| | 31 October 2022 £ |
|---|---|
| Service fee income | 1,853,151 |
| Investment Income | 1,614,060 |
| Bank interest income | 453,973 |
| Interest income on loan to Shareholder | 15,002 |
| | **3,936,186** |

Refer to note 10 for further detail on interest on loans to subsidiaries recognised in Investment income.

## 7. ADMINISTRATIVE AND OTHER EXPENSES

| | 31 October 2022 £ |
|---|---|
| Administrative fees | 48,000 |
| AIFM Fees | 61,573 |
| Director & officer insurance | 44,917 |
| Directors' fees | 226,577 |
| Fees payable to the auditor for the audit of the Company's Financial Statements | 140,000 |
| Fees payable to the auditor for the audit of the Company's Initial accounts | 100,000 |
| Legal and Professional fees | 791,052 |
| Listing fees expensed | 377,035 |
| Investment Adviser fees | 1,848,845 |
| Secretarial Fees | 45,000 |
| Sundry expenses | 316,190 |
| | **3,999,189** |

The Company has no employees and therefore no employee related costs have been incurred.

### ADMINISTRATIVE AND SECRETARIAL FEES

JTC (UK) Limited has been appointed to act as administrator and secretary for the Company through the Administration and Company Secretarial Agreement with effect from 14 October 2021. JTC (UK) Limited is entitled to a minimum fee of £48,000 per annum for accounting and administration services to the Company as well as a minimum fee of £45,000 per annum for the provision of Governance and Company Secretarial services.

During the year, fees incurred with JTC (UK) Limited amounted to £123,000 including set up fees and £93,000 remained payable as at 31 October 2022.

### AIFM

JTC Global AIFM Solutions Limited ("**the AIFM**") has been appointed to act as the AIFM for the Company through the AIFM Agreement with effect from 14 October 2021. The AIFM is entitled to charge an annual rate of 0.03% of the Company's equity raised subject to a minimum annual fee of £30,000.

During the year, fees incurred with the AIFM amounted to £61,573 and £21,000 remained payable as at 31 October 2022.

### INVESTMENT ADVISER

Investment Adviser fees are payable monthly in arrears. Details on how the fees are charged are disclosed in note 24.

## 8. TAXATION

The Company is recognised as an ITC for accounting periods beginning on or after 1 October 2021 and is taxed at the main rate of 19%. An ITC may claim a tax deduction for the distribution of income that arises from interest receipts on the loan notes. Therefore, no corporation tax charge has been recognised for the Company for the period to 31 October 2022.

| | Revenue £ | Capital £ | 31 October 2022 Total £ |
|---|---|---|---|
| a) Tax charge in profit or loss | | | |
| UK corporation tax | – | – | – |
| b) Reconciliation of the tax charge for the period | | | |
| Profit before tax | (63,003) | 53,080,091 | 53,017,088 |
| Tax at UK main rate of 19% | (11,971) | 10,085,217 | 10,073,247 |
| Tax effect of: | | | |
| Non-taxable investment gains on investments | – | (10,085,217) | (10,085,217) |
| Non-deductible expenses | 71,637 | – | 71,637 |
| Tax deductible interest distributions | (59,667) | – | (59,667) |
| Tax charge for the period | – | – | – |

### (c) Factors that affect future tax charges

ITCs which have been approved by HM Revenue & Customs are exempt from UK corporation tax on their capital gains. Due to the Company's status as an approved ITC, and the intention to continue meeting the conditions required to maintain that approval for the foreseeable future, the Company has not provided for deferred tax in respect of any gains or losses arising on the revaluation of its investments. Taxes are based on the UK Corporate tax rates which existed as of the balance sheet date which was 19%. The UK Government confirmed their intention to increase the main rate of corporation tax from 19% to 25% from 1 April 2023 for companies with profits over £250,000.

As at 31 October 2022 the Company had not provided deferred tax assets or liabilities. At that date, based on current estimates and including the accumulation of net allowable losses, the Company had no unrelieved losses.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## 9. EARNINGS PER SHARE

Earnings per share amounts are calculated by dividing the profit or loss for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

| | Weighted average number of Ordinary Shares | Net profit attributable to Shareholders | 31 October 2022 £ |
|---|---|---|---|
| Ordinary Shares | 210,000,000 | 53,017,088 | 0.25 |

## 10. INVESTMENTS AT FAIR VALUE

| Subsidiaries | Place of business | Percentage ownership |
|---|---|---|
| Harmony (PW) Limited | Cottingham, East Yorkshire | 100% |
| Harmony (PW) 2 Limited | Cottingham, East Yorkshire | 100% |
| Harmony BD Limited | Broadditch, Kent | 100% |
| Harmony FM Limited | Farnham, Surrey | 100% |
| Harmony RH Ltd | Drax, North Yorkshire | 100% |
| Daisy No. 2 Limited | Lochgelly, Fife | 100% |
| HEIT Holdings Ltd | Knaresborough, North Yorkshire | 100% |
| Harmony BF Limited | Ilmer, Buckinghamshire | 100% |

| Subsidiaries | Equity acquisitions during the period £ | Loans: principal advanced £ | Loans: Interest charged £ | Cost at 31 October 2022 £ | Net Fair value movement £ | Closing balance: equity and loans £ |
|---|---|---|---|---|---|---|
| Harmony (PW) Limited | 8,224,633 | 4,075,047 | 175,023 | 12,474,703 | 12,058,246 | **24,532,949** |
| Harmony (PW) 2 Limited | 8,931,692 | 1,631,222 | 51,287 | 10,614,201 | 11,723,982 | **22,338,183** |
| Harmony BD Limited | 592,489 | 2,451,079 | 157,786 | 3,201,354 | 2,956,881 | **6,158,235** |
| Harmony FM Limited | 2,821,324 | 5,777,562 | 250,916 | 8,849,802 | 3,531,263 | **12,381,065** |
| Harmony RH Ltd | 5,039,989 | 8,144,129 | 313,329 | 13,497,447 | (383,339) | **13,114,108** |
| Daisy No. 2 Limited | 7,912,631 | 10,565,352 | 301,390 | 18,779,373 | (263,988) | **18,515,385** |
| HEIT Holdings Ltd | 1 | 1,379,402 | 32,703 | 1,412,106 | 2,399,840 | **3,811,946** |
| Harmony BF Limited | – | 23,445,142 | 331,626 | 23,776,768 | 21,057,206 | **44,833,974** |
| **TOTAL** | **33,522,759** | **57,468,935** | **1,614,060** | **92,605,754** | **53,080,091** | **145,685,845** |

On 9 November 2021 the Company acquired issued share capital of each of the companies above (excluding Harmony BF Limited and HEIT Holdings Ltd) (the "**Seed Portfolio Companies**") from Harmony Energy Limited. The investments were purchased at an aggregate purchase price of £38,455,614 plus acquisition costs of £427,255 less the aggregate amount of the Harmony Energy Limited shareholder loans of £1,820,240 and deferred consideration of £3,690,591. As part of the purchase price, shares to the value of £23,483,695 were issued by the Company to Harmony Energy Limited, and are credited as fully paid.

On 9 November 2021, the Company entered into an Intercompany Services Agreement ("**ISA**") with its subsidiaries. The Company earned service fee income of £1,853,151 during the period some of which has been settled using the loan to the subsidiaries.

On 12 November 2021, the Company granted Sterling term loan facilities to its subsidiaries totalling £113,000,000. The intra-group loans are payable on the longstop date being 12 November 2036. The loans bear interest at a rate of 8% compounded monthly, payable monthly in arrears after the date of substantial completion. The interest on the intra group loans is recognised as Investment income.

On 4 February 2022, HEIT Holdings Ltd was incorporated as a wholly owned subsidiary of the Company.

On 29 July 2022, the Company acquired the issued share capital of Harmony BF Limited from Harmony Energy Limited. The investment was purchased at an aggregate purchase price of £0. The purchase price was determined by a formula agreed on 9 November 2021 to mirror the acquisition mechanics of the Seed Portfolio Companies. Cost increases between 9 November 2021 and the date of acquisition resulted in a purchase price of £0, a discount to fair market value of £17.3m (as supported by the independent valuation performed by Mazars at the date of purchase). The commitment to purchase was legally binding on 9 November 2021 hence the forward contract was recognised from that date and fair valued through profit or loss. Of the fair value gain recognised through profit and loss recorded regarding Harmony BF limited, £15,688,215 is in respect of that forward contract.

The Company meets the definition of an investment entity. Therefore, it does not consolidate its subsidiaries but, rather, recognises them as investments at fair value through profit or loss.

The Company has current intentions to provide financial or other support to the subsidiaries, including intentions to assist its subsidiaries in obtaining financial support.

The Fair value measurements and sensitivities used to measure these investments are disclosed in note 17.

## 11. TRADE AND OTHER RECEIVABLES

| | 31 October 2022 £ |
|---|---|
| Prepayments | 35,172 |
| VAT receivable | 482,555 |
| Intercompany loans receivable | 482,925 |
| Amounts due from related parties | 381,041 |
| | **1,381,693** |

## 12. LOAN TO SHAREHOLDER

| | 31 October 2022 £ |
|---|---|
| Loan to Shareholder | 1,443,506 |
| | **1,443,506** |

On 1 July 2022, the Company granted a £5,000,000 revolving credit facility to Harmony Energy Limited ("**the Facility**"). Interest is charged on the Facility at margin rate of 3% plus 1 year SONIA (sterling overnight index average).

The purpose of the Facility is to fund next stage grid connection payments in order to maintain energisation dates, in relation to near-term pipeline projects, over which the Company has an exclusive right of first refusal.

The loan is due to be received at the earlier of:

(a) the Repayment Date of 30 June 2023; or

(b) within 10 Business Days of demand by the Lender, provided that the Lender shall not serve such demand prior to 31 December 2022.

As the Facility was repaid within 12 months of the reporting date on 14 December 2022 the loan has been classified as current.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## 13. CASH AND CASH EQUIVALENTS

| | 31 October 2022<br>£ |
|---|---|
| Cash at bank | 105,471,626 |
| Fixed Deposit account | 19,100,000 |
| | **124,571,626** |

## 14. TRADE AND OTHER PAYABLES

| | 31 October 2022<br>£ |
|---|---|
| Creditors and Operating Accruals | 301,013 |
| Administrator fees | 48,000 |
| AIFM Fees | 21,000 |
| Audit fees | 140,000 |
| Investment Adviser Fee Accrual | 220,351 |
| | **730,364** |

## 15. FINANCIAL LIABILITY AT FAIR VALUE

| | 31 October 2022<br>£ |
|---|---|
| Balance at 1 October 2021 | – |
| Convertible C Shares | 14,771,364 |
| Less equity costs | (229,192) |
| | **14,542,172** |

On 12 October 2022, the Company issued 14,771,364 C Shares of £0.10 each at a price of £1.00 per C Share. The C Shares so issued have equal voting rights with Ordinary Shares. The total number of Ordinary and C Shares with voting rights in issue immediately following admission was 224,771,364. The assets representing the net proceeds of the C Share issue will be accounted for and managed as a distinct pool of assets until the C Shares are converted into Ordinary Shares.

The conversion of the C Shares took place following the acquisition of the pipeline projects as described in note 26.

The C Shares are converted into Ordinary Shares on the basis of a conversion ratio. The Conversion Ratio is the ratio of the net asset value per C Share to the net asset value per Ordinary Share as at the Conversion Calculation Date. On conversion, the new Ordinary Shares issued as a result of the conversion of C Shares will rank pari passu with the existing Ordinary Shares in issue on the date of conversion.

C Class shares in issue are convertible and as required under IAS 32, are presented as financial liabilities at fair value in the Statement of Financial Position. No profit or loss on the pool of assets related to the C Shares has occurred during the period.

## 16. CATEGORIES OF FINANCIAL INSTRUMENTS

| | 31 October 2022<br>£ |
|---|---:|
| Financial assets | |
| *Financial assets at fair value through profit and loss:* | |
| Investments | 145,685,845 |
| *Financial assets at amortised cost:* | |
| Trade and other receivables | 1,381,693 |
| Loan to Shareholder | 1,443,506 |
| Cash and Cash Equivalents | 124,571,626 |
| **Total financial assets** | **273,082,670** |
| Financial liabilities | |
| *Financial liabilities at fair value through profit and loss:* | |
| Financial liability at fair value | 14,542,172 |
| *Financial liabilities at amortised cost:* | |
| Trade and other payables | 730,364 |
| **Total financial liabilities** | **15,272,536** |

At the balance sheet date, all financial assets and liabilities were measured at amortised cost except for the financial liability and investment in subsidiaries which are measured at fair value as further explained in note 15 and 18 respectively. The carrying amount for the financial assets and liabilities measured at amortised costs approximates fair value.

## 17. FINANCIAL RISK MANAGEMENT

The Company is exposed to certain risks through the ordinary course of business and the Company's financial risk management objective is to minimise the effect of these risks. The management of risks is performed by the Directors of the Company and the exposure to each financial risk considered potentially material to the Company, how it arises and the policy for managing it is summarised below:

### CREDIT RISK

The Company is exposed to third-party credit risk in several instances and the possibility that counterparties with which the Company and its subsidiaries, together the "**Group**", contracts may fail to perform their obligations in the manner anticipated by the Group.

Counterparty credit risk exposure limits are determined based on the credit rating of the counterparty. Counterparties are assessed and monitored on the basis of their ratings from Standard & Poor's and/or Moody's. No financial transactions are permitted with counterparties with a credit rating of less than BBB- from Standard & Poor's or Baa3 from Moody's unless specifically approved by the Board.

Cash and other assets that are required to be held in custody will be held at bank. Cash and other assets may not be treated as segregated assets and will therefore not be segregated from the bank's own assets in the event of the insolvency of a custodian. Cash held with the bank will not be treated as client money subject to the rules of the FCA and may be used by the bank in the ordinary course of its own business. The Company will therefore be subject to the creditworthiness of the bank. In the event of the insolvency of the bank, the Company will rank as a general creditor in relation thereto and may not be able to recover such cash in full, or at all.

Credit risk is mainly at subsidiary level where the capital commitments are being made and is managed by diversifying exposures among a portfolio of counterparties and through applying credit limits to those counterparties with lower credit standing.

Cash and bank deposits are held with major international financial institutions who each hold a Moody's credit rating of A2 or higher.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## CURRENCY RISK

The Company is not exposed to currency risk as all its assets, liabilities and transactions during the current period were denominated in British Pound Sterling.

## LIQUIDITY RISK

The objective of liquidity management is to ensure that all commitments which are required to be funded can be met out of readily available and secure sources of funding. The Company's only financial liabilities are trade and other payables. The Company intends to hold sufficient cash across the Company and subsidiaries' operating accounts to meet the working capital needs.

As at 31 October 2022, the Company held cash at bank of £124,571,626 and had trade and other payables totalling £730,363.

The following table reflects the maturity analysis of financial assets and liabilities.

| As at 31 October 2022 | <1 year £ | 1 to 2 years £ | 2 to 5 years £ | >5 years £ | Total £ |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| *Financial assets at fair value through profit and loss:* | | | | | |
| Loan investment to subsidiaries* | – | – | – | 59,082,995 | 59,082,995 |
| *Financial assets at amortised cost:* | | | | | |
| Cash at bank | 124,571,626 | – | – | – | 124,571,626 |
| **Total financial assets** | **124,571,626** | **–** | **–** | **59,082,995** | **183,654,621** |

| As at 31 October 2022 | <1 year £ | 1 to 2 years £ | 2 to 5 years £ | >5 years £ | Total £ |
|---|---|---|---|---|---|
| Financial liabilities | | | | | |
| Financial liabilities at fair value through profit and loss: | | | | | |
| Financial liability at fair value | 14,542,172 | – | – | – | 14,542,172 |
| Financial liabilities at amortised cost: | | | | | |
| Trade and other payables | 730,364 | – | – | – | 730,364 |
| **Total financial liabilities** | **15,272,536** | **–** | **–** | **–** | **15,272,536** |

*Includes the interest on loans advanced and excludes the equity portion of the investment.

## MARKET RISK

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects: (i) other price risks, and (ii) interest rate risk. The objective is to minimise market risk through managing and controlling these risks to acceptable parameters, while optimising returns. The Company uses financial instruments in the ordinary course of business in order to manage market risks. Further commentary on financial and market risks is provided in the Principal Risks and Uncertainties section, including inflation.

### (i) PRICE RISK

The Company's investments are susceptible to market price risk arising from uncertainties about future values of the instruments. The Company's Investment Adviser provides the Company with investment recommendations. The Company's Investment Adviser's recommendations are reviewed and approved by the Board before the investment decisions are implemented. To manage the market price risk, the Company's Investment Adviser reviews the performance of the investments on a regular basis and is in regular contact with the management of the non-current investments for business and operational matters.

Price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. At 31 October 2022, if the valuation of investments had been 10% higher with all other variables held constant, the increase in net assets attributable to Shareholders for the period would have been £14,568,585 higher, arising due to the increase in the fair value of financial instruments. A 10% decrease would have the equal and opposite effect.

The impact of changes in unobservable inputs to the underlying investments is considered in note 17.

### (ii) INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Company is exposed to interest rate risk on its cash balances held with counterparties, bank deposits, and through loans to related parties. Bank deposits advance carry a fixed rate of interest for a definite period and loans to subsidiaries carry a fixed rate of interest. The Company is not exposed to changes in variable market rates of interest and has therefore not considered any sensitivity to interest rates.

The Company does not have any borrowings as at 31 October 2022 however the Company has access to a £60,000,000 loan facility through its subsidiary HEIT Holdings Ltd. As at 31 October 2022, there has been no drawdown on this loan. It is a five-year facility with an initial margin of 300bps over SONIA, rising over time to a maximum of 375bps by year 5. HEIT Holdings Ltd entered into an interest rate swap in relation to this facility. The swap hedges the risk of fluctuation in the SONIA rate, and fixes the underlying interest rate at 2.508% to provide stability in interest costs over the term of the loan. The fair value of the swap fluctuates in line with interest rates and the risk of the movement in swap value is not considered material. The Company is required to enter into similar hedging agreements on the extended loan facility completed in February 2023.

Where not a requirement of the underlying loan facilities, the Company will consider the costs and benefits of hedging on a case by case basis.

At 31 October 2022, the Company is indirectly exposed to interest rate risk through its investments in the subsidiaries. The Company may be exposed to changes in variable market rates of interest and this could impact the discount rate and therefore the valuation of the projects. The sensitivity of the valuation of the investment projects due to discount rates are disclosed in note 17.

## CAPITAL RISK MANAGEMENT

The capital structure of the Company at period end consists of equity attributable to equity holders of the Company of £272,352,306, comprising issued capital, reserves and accumulated loss. The Board continues to monitor the balance of the overall capital structure so as to maintain investor and market confidence. The Company is not subject to any external capital requirements.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## 18. FAIR VALUE MEASUREMENT

### FAIR VALUE MEASUREMENT AND HIERARCHY

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs or any other significant unobservable inputs, that measurement is a Level 3 measurement.

The following table analyses within the fair value hierarchy the Company's assets measured at fair value at 31 October 2022:

| | Level 1<br>£ | Level 2<br>£ | Level 3<br>£ |
|---|---|---|---|
| Investment in subsidiary | – | – | **145,685,845** |

The Company only invests in assets at fair value through profit or loss that are Level 3 in the fair value hierarchy and the reconciliation in the movement of this Level 3 investment is presented below. No transfers between levels took place during the period.

| | 31 October 2022<br>£ |
|---|---|
| Opening balance | – |
| Add: purchases during the period | 92,605,754 |
| Total fair value movement through the profit or loss | 53,080,091 |
| **Closing balance** | **145,685,845** |

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

### VALUATION METHODOLOGY

There are three traditional valuation approaches that are generally accepted and typically used to establish the value of a business: the income approach; the market approach; and the net assets (or cost based) approach. Within these three approaches, several methods are generally accepted and typically used to estimate the value of a business.

The valuation of all the Company's investments (excluding the investment in HEIT Holdings Ltd), is based primarily on a discounted cash flow methodology ("**DCF**"), "Income Approach", which indicates value based on the sum of the economic income that an asset, or group of assets, is anticipated to produce in the future. Free cash flow to total invested capital is typically the appropriate measure of economic income. The method discounts free cash flows using an estimated discount rate Weighted Average Cost of Capital ("**WACC**"). The selected discount rate is supported by the benchmarking of discount rates for assets in the same, or analogous sectors as the portfolio.

The valuation at 31 October 2022, reflecting the status of the investments to date, was determined using the DCF method whereby the value of an asset is based on the projected cash flows adjusted for time value of money and inherent risk of the cash flows using an appropriate discount rate.

Included in the fair value of the investments is £9,623,045 in cash at project level.

The fair value of the investment in HEIT Holdings Ltd represents the net assets of the company as determined (presented by the Investment Adviser and reviewed) by the Company's administrator and further presented to and reviewed by the Company's Board of Directors. As at 31 October 2022, HEIT Holdings Ltd held an investment in an interest rate swap measured at fair value but no projects. The interest rate swap is valued on a mark to market basis using a mid-market price at the close of business as at valuation date.

There has been no change in the valuation methodology during the period.

## VALUATION PROCESS

Valuations are the responsibility of the Board of Directors. The Investment Adviser is responsible for submitting fair market valuations of the Company's assets to the Directors. The Directors review and approve these valuations following appropriate challenge and examination. Valuations are carried out quarterly, with Mazars acting as independent valuer providing a valuation report semi-annually. The current portfolio consists of non-market traded investments and valuations are based on a DCF methodology.

The Investment Adviser's assessment of fair value of investments is determined in accordance with the International Private Equity and Venture Capital 2018 ("IPEVC") Valuation Guidelines, using levered and unlevered DCF principles.

In the period, the Company acquired battery storage projects from Harmony Energy Limited, which is a leading developer of utility scale battery storage projects, alongside developing, owning, and operating wind and solar projects.

As at 31 October 2022 ("**Valuation Date**"), the Company had live investments in the following seven battery energy storage systems projects in the UK – Pillswood 1, Pillswood 2, Broadditch, Farnham, Rusholme, Little Raith, and Bumpers. These projects, taken together, have a combined rated power capacity of 312.5MW and an energy storage capacity of c.625MWh.

All the projects in the portfolio are under construction (as at 31 October 2022) with an expected construction period of c. 9-15 months for each site. The Projects are expected to have an operational life of 30 years with a repowering or cell replacement assumed after 15 years.

The Projects attract four different streams of revenues: trading revenue (wholesale, Balancing Mechanism and churn), Ancillary Services (Frequency Response Revenue, Dynamic Containment and Dynamic Regulation), Capacity Market revenue and embedded benefits (via the Embedded Export Tariff). Given the difficulty in accurately forecasting revenues over the long-term, the Company purchases independent forecasts from three well respected providers. By blending three forecasts, the Company is able to take account for differing views of long-term drivers of value. Two of these providers focus on long-term fundamental-based forecasts whereas one is focused on shorter-term battery specific performance.

The Board, supported by the Audit and Risk Committee, reviews the operating and financial assumptions, including the discount rates, used in the valuation of the Company's underlying portfolio and approves them based on the recommendation of the Investment Adviser.

As at 31 October 2022, the fair value of all the investments held within the portfolio, with the exception of the investment in HEIT Holdings Ltd, have been determined (presented by the Investment Adviser and reviewed) by Mazars LLP and further presented to and reviewed by the Company's Board of Directors.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## SENSITIVITY ANALYSIS

The following tables reflect the range of sensitivities in respect of the fair value movements. The individual project valuations are disclosed in note 10.

The Directors consider the changes in inputs to be within a reasonable expected range based on their understanding of market transactions. This is not intended to imply that the likelihood of change or that possible changes in value would be restricted to this range.

| Investment | Project | Investment fair value £ | Valuation technique | Significant input description | Sensitivity | Estimated effect on fair value £ |
|---|---|---|---|---|---|---|
| Harmony (PW) Limited | Pillswood 1 | 24,532,949 | DCF | Discount rate | +1% | (2,755,218) |
| | | | | | -1% | 3,152,484 |
| | | | | Revenue | +10% | 5,166,096 |
| | | | | | -10% | (5,218,460) |
| Harmony (PW) 2 Limited | Pillswood 2 | 22,338,183 | DCF | Discount rate | +1% | (2,753,742) |
| | | | | | -1% | 3,150,947 |
| | | | | Revenue | +10% | 5,166,553 |
| | | | | | -10% | (5,219,204) |
| Harmony BD Limited | Broadditch | 6,158,235 | DCF | Discount rate | +1% | (627,886) |
| | | | | | -1% | 718,932 |
| | | | | Revenue | +10% | 1,140,544 |
| | | | | | -10% | (1,147,759) |
| Harmony FM Limited | Farnham | 12,381,065 | DCF | Discount rate | +1% | (1,242,714) |
| | | | | | -1% | 1,425,694 |
| | | | | Revenue | +10% | 2,057,807 |
| | | | | | -10% | (2,079,858) |
| Harmony RH Ltd | Rusholme | 13,114,108 | DCF | Discount rate | +1% | (1,937,654) |
| | | | | | -1% | 2,226,456 |
| | | | | Revenue | +10% | 3,226,431 |
| | | | | | -10% | (3,243,603) |
| Daisy No. 2 Limited | Little Raith | 18,515,385 | DCF | Discount rate | +1% | (2,516,173) |
| | | | | | -1% | 2,905,779 |
| | | | | Revenue | +10% | 4,190,210 |
| | | | | | -10% | (4,186,939) |
| Harmony BF Limited | Bumpers 1&2 | 44,833,974 | DCF | Discount rate | +1% | (5,778,738) |
| | | | | | -1% | 6,668,644 |
| | | | | Revenue | +10% | 8,679,227 |
| | | | | | -10% | (8,674,979) |

### Portfolio Sensitivity

The below table reflects a range of sensitivities which the Directors consider to have a significant impact on the portfolio of investments held by the Company:

| Investment | Sensitivity | Estimated effect on fair value £ |
|---|---|---|
| Inflation | +0.5% | 13,322,583 |
| | -0.5% | (12,444,295) |
| Construction Costs | +15% | (24,862,381) |
| | -15% | 24,573,989 |
| Operating costs | +15% | (7,803,622) |
| | -15% | 7,789,333 |
| Cell replacement costs | +15% | (1,290,494) |
| | -15% | 1,327,324 |

## 19. SHARE CAPITAL

| | Number of shares | Share capital £ | Share premium £ | Capital reduction reserve £ | Total Shareholders' equity £ |
|---|---|---|---|---|---|
| As at 1 October 2021 | – | – | – | – | – |
| Issue of fully paid Ordinary Shares at £1 | 210,000,000 | 2,100,000 | 207,900,000 | – | 210,000,000 |
| Ordinary Shares Equity issue costs | – | – | (3,106,954) | – | (3,106,954) |
| Transfer to capital reduction reserve | – | – | (204,793,046) | 204,793,046 | – |
| Dividends paid | – | – | – | (2,100,000) | (2,100,000) |
| **As at 31 October 2022** | **210,000,000** | **2,100,000** | **–** | **202,693,046** | **204,793,046** |

### SHARE CAPITAL, SHARE PREMIUM ACCOUNT AND CAPITAL REDUCTION RESERVE

On 12 October 2021, the Board approved the proposed placing and offer for subscription (together the "**Placing**") of Ordinary Shares of £0.01 nominal value each in the capital of the Company at a price of £1.00 per Ordinary Share. The Board also approved the acquisition of the Seed Portfolio Companies (refer note 10), consideration for which included the issue of 23,483,695 Ordinary Shares at a price of £1.00 per Ordinary Share to Harmony Energy Limited. The Placing raised gross proceeds of £186,516,305, and therefore the number of Ordinary Shares of £0.01 each issued by the Company and admitted to trading was 210,000,000 in aggregate.

Following a successful application to the High Court and lodgement of the Company's statement of capital with the Registrar of Companies, the Company was permitted to cancel its share premium account. This was effected on 15 December 2021 by a transfer of the balance of £204,793,046 from the share premium account to the capital reduction reserve. The capital reduction reserve is classed as a distributable reserve and dividends to be paid by the Company are to be offset against this reserve.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## 20. RESERVES

The nature and purpose of each of the reserves included within equity at 31 October 2022 are as follows:

- Share premium reserve: represents the surplus of the gross proceeds of share issues over the nominal value of the shares, net of the direct costs of equity issues and net of conversion amount.
- Capital reduction reserve: represents a distributable reserve created following a Court approved reduction in capital. This reserve is distributable and maybe used, where the Board considers it appropriate, by the Company for the purpose of paying dividends to Shareholders.
- Revenue reserve: represents a distributable reserve of cumulative net gains and losses recognised in the Revenue account of the Statement of Comprehensive Income.
- Capital Reserves: represents a non-distributable reserve of cumulative net capital gains and losses recognised in the Statement of Comprehensive Income.
- The only movements in these reserves during the period are disclosed in the statement of changes in equity.

## 21. NET ASSET VALUE PER SHARE

Basic NAV per share is calculated by dividing the Company's net assets as shown in the statement of financial position that are attributable to the ordinary equity holders of the Company by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

| | 31 October 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Shares in issue | Assets | Liabilities | Profit | Pence per Share | Net Asset Value £ |
| Ordinary Shares | 210,000,000 | 273,082,670 | 15,272,536 | 53,017,088 | 122.77 | 257,810,134 |

## 22. DIVIDENDS

| | Dividend per share | Estimated effect on fair value £ |
|---|---|---|
| For the 6 month period ended 30 April 2022 | 1 pence | 2,100,000 |

The dividends paid during the year were paid out of capital reduction reserve.

On 23 November 2022 the Company declared a dividend of 1 pence per Ordinary Share in relation to the period 1 May 2022 to 31 October 2022 which was paid on the 16 December 2022 to Shareholders on the register as at the close of business on 2 December 2022.

## 23. DEFERRED CONSIDERATION

On 14 October 2021 the Company acquired issued share capital of each of the Seed Portfolio Companies from Harmony Energy Limited. The investment was purchased at an aggregate purchase price of £38,455,614 with acquisition costs of £427,255 less the aggregate amount of the Harmony Energy Limited shareholder loans of £1,820,240 and deferred consideration of £3,690,591.

The share purchase agreement in relation to this acquisition set out an amount of £3,690,591 to be deferred until the signing of EPC contracts on each project within the Seed Portfolio. The projects were acquired at a fixed price per megawatt including construction costs basis, with part of the consideration deferred. To the extent certain actual contract costs had increased above the anticipated costs, such cost increases were deducted from the deferred consideration.

As at 31 October 2022 all Seed Portfolio Companies (as well as Harmony BF Limited) have signed EPC contracts, with the latest being executed in June 2022. No deferred consideration was payable due to increases in the contract costs and the Company has no outstanding obligations or liabilities in this respect. As such, the deferred consideration has not been recognised in the Financial Statements as none was ultimately payable.

## 24. TRANSACTIONS WITH RELATED PARTIES

Following admission of the Ordinary Shares (refer to note 18), the Company and the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company does not have an ultimate controlling party.

Details of related parties are set out below:

### NON-EXECUTIVE DIRECTORS

Details of the fees paid to Directors in the period are set out in the Directors' Report.

Total Directors' fees of £226,577 were incurred in respect of the period with none being outstanding and payable at the end of the period.

### SUBSIDIARIES

On 9 November 2021 the Company acquired issued share capital of each of the Seed Portfolio Companies at an aggregate purchase price of £38,455,614 from Harmony Energy Limited as disclosed below.

During the period the Company granted Sterling term loan facilities to its subsidiaries totalling £194,000,000.

Refer to note 10 for further detail.

As described in the going concern note on page 66, the Company was a guarantor to its wholly owned subsidiary, HEIT Holdings Ltd in respect of the £60 million debt facility. Post reporting period, this guarantee has been increased to cover the new £110 million debt facility and an ancillary revolving credit facility of up to £20 million. The Company also provides parent company guarantees to subsidiaries in relation to certain construction and/or battery supply contracts. As at 31 October 2022, total committed funding to subsidiaries was £161 million. As at the date of publication, the aggregate outstanding funding commitment stands at £148 million, recognising both expenditure incurred post reporting period as well as new commitments made in relation to the Hawthorn Pit and Wormald Green projects. These commitments are covered by the Company's cash reserves and debt facilities.

# NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

## INVESTMENT ADVISER

The Investment Adviser is entitled to advisory fees under the terms of an investment advisory agreement dated 14 October 2021. The Company shall pay to the Investment Adviser an annual fee (exclusive of value added tax, which shall be added where applicable) payable monthly in arrears calculated at the rate of:

- One twelfth of 0.9% per calendar month of the lesser of the (i) NAV or (ii) Average Market Capitalisation of the Company up to the threshold of £250,000,000; and
- One twelfth of 0.8% per calendar month of the lesser of the (i) NAV or (ii) Average Market Capitalisation of the Company in excess of £250,000,000

An advisory fee of £1,848,845 was incurred during the period and £220,351 remained payable as at 31 October 2022.

Harmony Energy Limited is the parent of the Investment Adviser and therefore an entity with significant control over the Investment Adviser. Harmony Energy Limited is also a significant shareholder of the Company.

The table below details the transactions between Harmony Energy Limited and the Company:

| Investment Purchases | Fair value of investment at purchase date £ | Purchase price £ |
|---|---|---|
| Harmony (PW) Limited | 8,224,633 | 8,224,633 |
| Harmony (PW) 2 Limited | 8,931,692 | 8,931,692 |
| Harmony BD Limited | 592,489 | 592,489 |
| Harmony FM Limited | 2,821,324 | 2,821,324 |
| Harmony RH Ltd | 5,039,989 | 5,039,989 |
| Daisy No.2 Limited | 7,912,631 | 7,912,631 |
| Harmony BF Limited | 17,300,000 | - |

All purchases were independently fair valued by Mazars at the time of acquisition and were considered to be at arm's length.

Harmony BF Limited was purchased at a discount of £17.3m as a result of the derivative contract entered into as described in note 10.

After period end the Company purchased further investments from Harmony Energy Limited as disclosed in note 26.

| Other transactions | Amount £ |
|---|---|
| Loan to Shareholder | 1,443,506 |

Details of the Loan to Shareholder is disclosed in note 12.

## OTHER RELATED PARTIES

James Ritchie-Bland is a director of Harmony Energy Limited as well as an indirect shareholder of Harmony Energy Limited through Ritchie-Bland Energy (Number 1) Limited. He is also a director of the Investment Adviser and a shareholder in the Company.

Ritchie-Bland Energy (Number 2) Limited, of which James Ritchie-Bland is also a director and an indirect shareholder (through Renewable Environmental Investments Limited) is party to a joint venture agreement with Harmony Energy Limited in regards to the three projects purchased by the Company after period end as disclosed in note 26

## 25. CAPITAL COMMITMENTS

The Company had no contingencies and no other significant capital commitments at the reporting date.

## 26. POST BALANCE SHEET EVENTS

On 23 November 2022, the Board approved a dividend of one pence per Ordinary Share for the period ending 31 October 2022, bringing the total dividend approved for the period to £4,200,000.

On 15 December 2022 the Company announced the acquisition of three 'shovel ready' pipeline projects totalling 181.9 MW / 363.8 MWh, increasing the Company's portfolio to nine battery energy storage system ("**BESS**") projects with a total capacity of c.500 MW / 1 GWh.

The Company has acquired the projects pursuant to a Pipeline Agreement entered into on IPO which granted the Company a right of first refusal of up to 1GW of BESS projects, from Harmony Energy Limited ("HEL") and Ritchie Bland Energy No. 2 Ltd (together the "**Developers**"). The total consideration for the three projects is c. £21.5 million (supported by the independent valuation performed by Mazars) being satisfied through the net proceeds of the recent C Share issue in conjunction with the issue of 7 million new C Shares to the Developers.

The three projects, known as Wormald Green, Hawthorn Pit and Rye Common (Phases I and II), are expected to be energised in Q1 2024, Q2 2024 and Q3 2024 respectively, with grid offers secured. In February 2023, Envision (as defined in the Investment Adviser's Report) were engaged to supply and install BESS for the Wormald Green and Hawthorn Pit projects, and contracted to provide long term maintenance and services to those projects. The Company provided parent company guarantees in relation to the BESS supply agreements.

The Company has also agreed terms to increase borrowing under its existing loan facility to enable it to draw down on the previously agreed accordion, alongside drawdown of funds pursuant to a new revolving credit facility. The funds available to the Company, through this borrowing and its cash resources, will fund the construction of the Wormald Green and Hawthorn Pit projects as well as the remaining grid connection payments for Rye Common, which are essential to maintain that project's timeline. The combined facility will increase the total debt available to £130 million, subject to fulfilment of conditions precedent to drawdown.

On 26 January 2023, the Company announced that it would be converting C Shares into new Ordinary Shares at a ratio of 0.786735 new Ordinary Shares for every 1 C Share held, resulting in (after aggregating fractional entitlements) additional issued share capital of 17,128,295 Ordinary Shares of £0.01.

There were no further events after the reporting date which require disclosure.

# COMPANY INFORMATION

## DIRECTORS

**Appointed: 12 October 2021**
Norman Crighton
Janine Freeman
Hugh McNeal
William Rickett
Shefaly Yogendra

## REGISTERED OFFICE

**The Scalpel 18th Floor**
52 Lime Street
London
EC3M 7AF

## INVESTMENT ADVISER

**Harmony Energy Advisors Limited**
Conyngham Hall, Bond End
Knaresborough
North Yorkshire
HG5 9AY
*Harmony Energy Advisors Limited is an appointed representative of Laven Advisors LLP, which is authorised and regulated by the Financial Conduct Authority.*

## INDEPENDENT AUDITOR

**Ernst & Young LLP**
25 Churchill Place
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London
E14 5EY

## REGISTRAR

**Computershare Investor Services PLC**
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## TAX ADVISERS

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## ADMINISTRATOR AND SECRETARY

**JTC (UK) Limited**
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EC3M 7AF

## CORPORATE BROKER

**Joh. Berenberg, Gossler & Co. KG, London Branch**
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## ALTERNATIVE INVESTMENT FUND MANAGER

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## INDEPENDENT VALUER

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## LEGAL ADVISERS

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**Gowling WLG (UK) LLP**
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# GLOSSARY

Set out below is an explanation of some of the industry-specific terms used in this Annual Report and Financial Statements:

| | |
|---|---|
| **2-hour duration** | "duration" in this context refers to the maximum length of time it is possible to fully discharge (or charge) a battery at nameplate power capacity. The average duration of current operating BESS projects in GB is 1.2 hours. Only four 2-hour duration BESS projects (91.5 MW aggregate) were operating in GB during the reporting period. The Company's Pillswood project (98 MW), which commenced operations after the end of the reporting period, represents the fifth 2-hour duration battery in GB, and the largest (by MWh) in Europe. The Investment Adviser expects a 2 hour BESS project to outperform a 1-hour BESS project in wholesale markets / arbitrage activity, whilst also providing downside protection against the risk of Ancillary Service market saturation over the longer term; |
| **Arbitrage** | wholesale trading and/or Balancing Mechanism; |
| **Ancillary Services** | contracts and tools that National Grid ESO procures and uses to manage Frequency Deviation, balance supply and demand (and otherwise maintain the stability of) the GB transmission network – sometimes referred to as "balancing services"; |
| **Balance-of-plant** | refers to those supporting or auxillary technical, electronic and other components needed to complete the project, other than the BESS itself. This would include transformers, inverters and switchgear. The term is also used to encompass civil engineering works such as foundations and work required to create trenches and lay cables; |
| **Balancing Mechanism or BM** | the ESO's primary tool to balance supply and demand on Great Britain's network. The Balancing Mechanism is used to buy and procure the right amount of electricity required to balance the system; |
| **BEIS** | the UK Government Department for Business, Energy & Industrial Strategy. Please note that, post-reporting period, the parts of BEIS relevant to the Company have been re-branded as the Department for Energy Security and Net Zero; |
| **Capacity Market** or **CM** | a market introduced by the government's Electricity Market Reform package, designed to ensure security of electricity supply by providing capacity providers with a steady, predictable revenue stream on which they can base their future investments. In return for such revenue, providers must deliver energy at times of system stress or face penalties; |
| **C Shares** | the C shares of £0.10 each in the capital of the Company (converted to Ordinary Shares in January 2023); |
| **Distribution Network Operator** or **DNO** | Distribution Network Operators are the owners of low voltage networks in Great Britain, providing the local wires which take the electricity from the grid and move it through their own network of power lines and underground cables, taking it to homes and businesses; |
| **Dynamic Containment** or **DC** | one of National Grid ESO's Ancillary Services, designed to operate post-fault, i.e. for deployment after a significant network Frequency Deviation in order to slow the rate of change of frequency of the network; |
| **Dynamic Moderation** or **DM** | one of National Grid ESO's Ancillary Services which operates similar to DC but for which the minimum response times are longer, meaning less demanding technical requirements for participants; |
| **Dynamic Regulation** or **DR** | one of National Grid ESO's Ancillary Services, designed to operate pre-fault to correct continuous but small deviations in network frequency; |
| **Frequency Deviation** | the electricity network in Great Britain operates at a frequency of 50Hz and one of National Grid ESO's roles is to manage and maintain the frequency of the network within one per cent. (0.5Hz) of the 50Hz level. The system frequency is linked to the supply/demand balance of the network.<br>When energy demand rises/supply decreases, National Grid ESO can instruct its contracted Ancillary Service providers to ramp up their energy production to prevent the frequency dropping. For a BESS project, this would involve an instruction to export its stored energy.<br>When demand is low/supply is high, National Grid ESO may instruct providers to reduce generation in order to prevent frequency from spiking too high. For a BESS project, this would be an instruction to import energy from the network; |
| **Lithium iron phosphate battery (LFP)** | a type of lithium-ion rechargeable battery which uses phosphate as a cathode material. Compared to a cobalt-based battery, an LFP battery has increased output, faster charging, reduced weight, and longer lifetime. As this type of battery does not use cobalt in its cathode, it avoids the negative environmental and human effects of sourcing cobalt; |
| **National Grid ESO** | the Electricity System Operator for Great Britain; |

# GLOSSARY **CONTINUED**

| | |
|---|---|
| **Nickel, Manganese and Cobalt battery (NMC)** | a type of lithium-ion battery which has a cathode of nickel, manganese, and cobalt. This type of battery has a high energy density and is commonly used to power electronic devices and electric vehicles; |
| **Ordinary Shares** | the ordinary shares of £0.01 each in the capital of the Company; |
| **Prospectus** | the prospectus issued by the Company on 15 October 2021 in respect of the IPO; |
| **Revenue Optimiser** | a third party company which provides revenue optimisation services to BESS projects (or other technologies), including:<br>(i) market access;<br>(ii) optimisation of market selection;<br>(iii) submission of bid and offer pricing into a range of markets; and<br>(iv) the physical dispatch of the projects; |
| **shovel ready** | a BESS project which has in place:<br>(i) a completed lease, lease option or agreement for lease in relation to the land upon which that project is situated;<br>(ii) planning permission enabling the construction of a suitable project on that land (subject to any amendments to reflect final technical specifications;<br>(iii) an industry standard grid connection offer from a DNO (or transmission system operator ("TSO")); and<br>(iv) a BESS supply and installation contract with material terms in agreed form with a reputable counterparty; |
| **T-1 Auction** | a Capacity Market auction held in the year immediately prior to each delivery year to top up capacity for the delivery year. Usually procures a much lower amount of capacity that a T-4 auction. It is not possible for a project to hold both a T-1 contract and a T-4 contract in relation to the same delivery year. However, it is possible for projects to bid for, and deliver under, T-1 contracts during the years prior to commencement of delivery for their T-4 contract; |
| **T-4 Auction** | this is the main Capacity Market auction at which National Grid ESO buys most of the capacity needed for delivery in four years' time. This auction provides long-term returns and is designed to promote new investments; |
| **TCFD** | Task Force on Climate-related Financial Disclosures; |
| **TNFD** | Task Force on Nature-related Financial Disclosures; |
| **TSO** | Transmission System Operator, being National Grid ESO; |
| **under construction** | a BESS project which has in place:<br>(i) an agreed lease on satisfactory terms in relation to the land upon which that project is situated;<br>(ii) an accepted industry standard grid connection offer from a DNO/TSO, and having made at least one milestone payment; and<br>(iii) a fully executed BESS supply and installation contract with a reputable counterparty |

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