Harmony Energy Income Trust plc

Quarterly update for the period ended 31 October 2023

Introduction

Harmony Energy Income Trust plc (the "**Company**") invests in utility-scale battery energy storage projects **("BESS")** in Great Britain (**"GB"**), targeting a dividend of 8 pence per Ordinary Share per annum with a target total return of 10-12% per annum.

Key Features

- Focussing on **longer duration 2-hour BESS** in GB to take advantage of increases in wholesale market revenue opportunities as increased renewable energy generation leads to higher levels of energy intermittency and power price volatility.
- Portfolio of **eight 2-hour duration BESS projects totalling 790.8 MWh / 395.4 MW** (the **"Portfolio"**), of which **555 MWh / 227.5 MW** (70% of the Portfolio) **is operational.**
- **Right of first refusal to acquire a further 505.6 MW** pipeline of BESS projects with ongoing right of first offer on subsequent pipeline developed by Harmony Energy Limited (the **"Developer"**).

Key Highlights

- 2 pence per Ordinary Share dividend was paid on 29 September 2023, meaning the Company has distributed 75% of the 8p target in relation to the Financial Year 2023, in line with expectations.
- The unaudited NAV as at 31 October was £262.12 million, or 115.40 pence per Ordinary Share, an increase of 0.61 pence per Ordinary Share (+0.53%) compared to 31 July 2023.
- 99 MW Rye Common project sold on 1 September 2023 at 1.5 per cent. premium to carrying value[4].
- Bumpers and Little Raith projects (combined 297 MWh / 148.5 MW) energised in October 2023.
- As previously reported on 1 September 2023, the Company procured a T-1 Capacity Market contract via the secondary market booking £403k of contracted income – factored into this NAV update.
- Post period-end, additional T-1 Capacity Market contract procured via the secondary market, creating a further £324k of contracted revenue (not incorporated into this NAV update).
- Planned launch of the Open Balancing Platform by National Grid ESO in December 2023 is expected to significantly increase trading volumes for BESS via the Balancing Mechanism.

Portfolio Update

The operational capacity of the Portfolio more than doubled during the reporting period with the energisation (ahead of schedule) of Bumpers and Little Raith (combined 297 MWh / 148.5 MW). The Bumpers project is the Company's largest BESS project, and the joint-largest in Europe (by MWh), being 2 MWh larger in capacity than the Company's Pillswood project. The Company now owns two of the three largest operational BESS assets in Europe (by MWh). The Rusholme project (70 MWh / 35 MW), has completed BESS installation but grid connection works continue to be delayed, with the modelled programme now pushed out to early Q2 2024. The Wormald Green and Hawthorn Pit projects have recently taken delivery of the first Envision battery modules.

From 1 October, the Pillswood, Broadditch and Farnham projects began to benefit from contracted T-1 Capacity Market payments, in line with modelled cashflows. As reported in the Portfolio Update published on 1 September 2023, early energisation of Little Raith and Bumpers enabled the Company to procure a T-1 Capacity Market contract via the secondary market to the value of £403k, now factored into the NAV for this period. Post period-end, the Company has procured another T-1 Capacity Market contract, realising a further £324k over 11 months from November 2023 (to be factored into the Company's NAV in the next update). Combined, the two contracts represent £727k of additional contracted revenue for the Company in relation to Financial Year 2024.

Operationally, the Portfolio continues to perform well relative to peers (on a £/MW basis). As at the date of publication of this Factsheet, the Company's Pillswood (Phase 1) project ranks #1 year-to-date (Source: Modo Energy).

Project	MWh / MW	Location	Target Commercial Operations Date*	Status
Pillswood	196 / 98	Yorkshire	Operational	Operational
Broadditch	22 / 11	Kent	Operational	Operational
Farnham	40 / 20	Surrey	Operational	Operational
Bumpers	198 / 99	Bucks.	Operational	Operational
Little Raith	99 / 49.5	Fife	Operational	Operational
Rusholme	70 / 35	Yorkshire	Q2 2024	Cold Commissioned
Wormald Green	66 / 33	Yorkshire	Q2 2024	Under Construction
Hawthorn Pit	99.8 / 49.9	County Durham	Q2 2024	Under Construction
Total	**790.8 / 395.4**			

** Dates are based on the calendar year*

Key Statistics as at 31 October 2023

Share price (pence)	72.50
NAV per share (pence)	115.40
Net Assets	£262.12 million
Market Cap.	£164.67 million
Target annual dividend (payable quarterly)	8 pence per Ordinary Share[1]
Shares in issue	227,128,295
Share price premium/(discount) to NAV	(37.2)%
Ongoing charges	1.25% per annum

Key information

Ticker	HEIT
Listing	LSE (Specialist Fund Segment)
Year-end	31 October
Currency	GBp
ISIN	GB00BLNNFY18
Investment Adviser Fee	0.90% per annum - 0.80% over £250m[2]
Address	The Scalpel 18th Floor 52 Lime St London EC3M 7AF

Board (Independent Non-Executive)

Norman Crighton	Chair
Janine Freeman	Director
Dr Hugh McNeal	Director
William Rickett, CB	Director
Dr Shefaly Yogendra	Director

Harmony Energy Group

Harmony Energy Advisors Limited (the "IA")[3]	Investment Adviser
Harmony Energy Limited (the "Developer")	Experienced developer of renewable and battery storage projects

Strong focus on ESG

Signatory of:

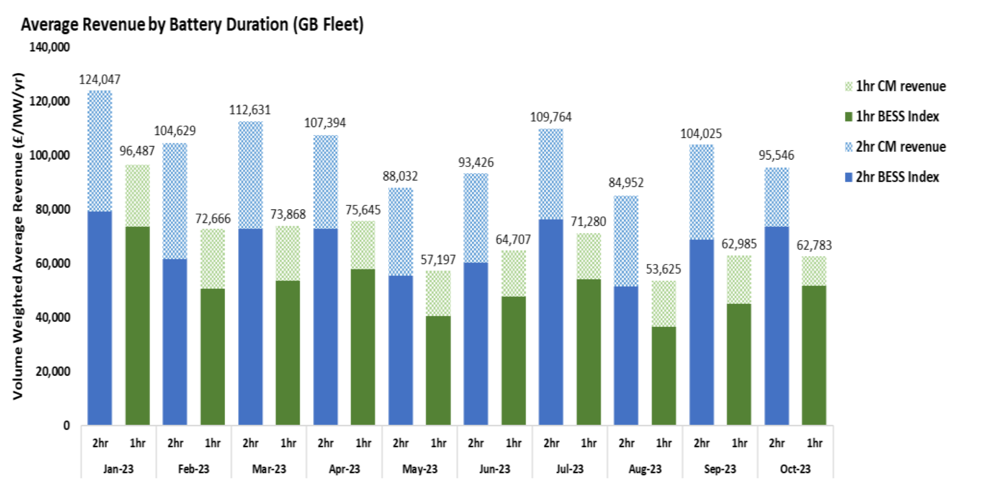
1. *Payments anticipated in March, June, September and December each year.*
2. *Per annum on the lesser of the Company's NAV or Market Capitalisation. 0.8% applied to the proportion of NAV/Market Capitalisation in excess of £250m.*
3. *The IA is an appointed representative of Laven Advisors LLP, which is authorised and regulated by the Financial Conduct Authority.*
4. *As at 30 April 2023, as per the Company's interim results. Project sold at "shovel ready" status.*

External Debt Update

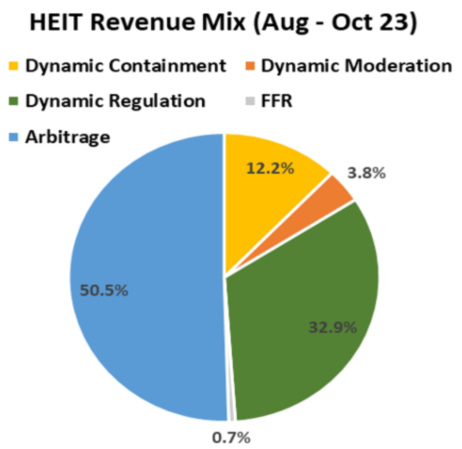
The Company currently benefits from £130 million of senior debt facilities, consisting of a £20 million revolving credit facility (unhedged) and a £110 million term loan facility (hedged by way of an interest rate cap of 5.25% per annum). The high rate of project construction completions during the reporting period has meant that the Company has accelerated the rate of debt drawdowns from such facilities. As at the end of the reporting period, total debt drawn equated to £95 million, including £10.6 million drawn under the revolving facility. This equates to 36% of current NAV.

Market Commentary

Average GB BESS revenues were mixed over the quarter. Day-ahead wholesale power market spreads narrowed to more seasonal norms in August before increasing again in September and October (by 25% and 32% respectively). Continued depressed pricing in the ancillary services markets encouraged greater participation (>50% of Portfolio revenues during the period) in arbitrage revenue strategies (wholesale trading and Balancing Mechanism), and it is well documented that longer-duration BESS outperforms shorter-duration BESS in such conditions. Of the ancillary services, the preferred strategy of the Portfolio has been the Dynamic Regulation (**"DR"**) service. As previously reported, 2-hr duration BESS can dedicate a greater proportion of their MW capacity to the DR service than shorter-duration BESS, and DR has historically cleared at a consistently higher price than other ancillary services. Using a combination of DR and wholesale trading is a common strategy for the Portfolio. DR provides opportunity for the BESS to either be paid to charge or charge for free, and this in turn provides opportunity to maximise the spread when the stored power is exported later in the day via the wholesale markets. Post-reporting period, the recent introduction by National Grid ESO of the Enduring Auction Capability is expected to make DR less valuable. However, the planned launch of the Open Balancing Platform by National Grid ESO in December 2023 is expected to significantly increase trading volumes for BESS via the Balancing Mechanism. This combination should result in an increased weighting towards arbitrage as the principal revenue strategy for the Portfolio. From October, the Company's first T-1 Capacity Market contracts began delivering additional revenues to the Portfolio. For this reason we have updated the below graph to show the impact that a T-1 Contract would have had on the average revenue performance of various BESS durations across the GB fleet over the last year.

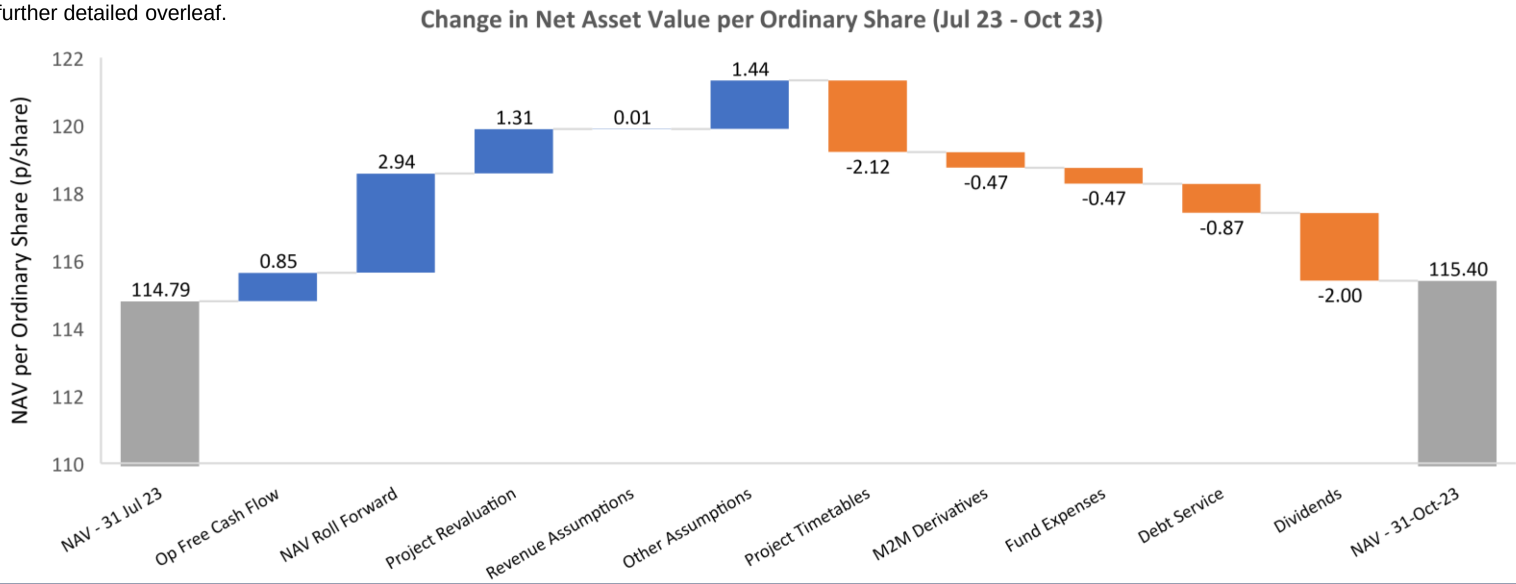


Source: Harmony Energy Advisors Ltd, using data from Modo Energy and National Grid.
Note: 2hr BESS index includes assets with a duration 1.5 hrs+, 1hr BESS index includes assets with a duration of less than 1.5 hrs.



NAV Update 31 October 2023

As at 31 October 2023, the Company's unaudited NAV was calculated to be £262.12 million (115.40 pence per Ordinary Share). This represents an increase of 0.61 pence per Ordinary Share (+0.53%) compared to 31 July 2023. The principal positive drivers were (i) the roll forward effect as "under construction" projects become closer to revenue generation (+2.94 pence per Ordinary Share); and (ii) the energisation and subsequent revaluation of Little Raith and Bumpers projects (combined 1.31 pence per Ordinary Share). Negative factors impacting the NAV included (i) a further revision to the energisation date for the Rusholme project together with one month extensions to the construction timetables for Wormald Green and Hawthorn Pit (aggregate -2.12 pence per Ordinary Share); and (ii) payment of the quarterly dividend (-2.0 pence per Ordinary Share). Revenue assumptions and discount rates have been revised, as further detailed overleaf.



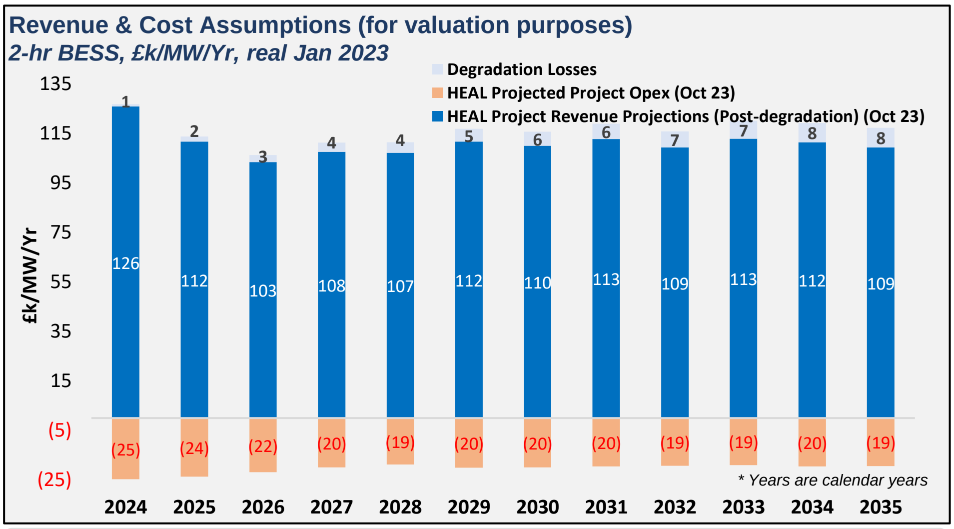
HARMONY ENERGY INCOME TRUST PLC

Revised Revenue Assumptions and Discount Rates

Having analysed updated long term revenue forecasts published by independent market commentators, and as agreed with the Company's independent valuer, the Company is publishing updated forward looking revenue assumptions used for performing asset valuations. Compared to previous assumptions, this translates to a marginally positive impact on NAV, with slightly lower headline revenue figures balanced against less degradation losses over the long term. In addition, whilst the discount rates applicable to "under construction" and "operating" assets have not changed, the independent valuer has recommended the introduction of a new discount rate category of 10.25%, to apply to newly energised assets. This withholds an element of construction risk whilst the projects prove an absence of technical teething issues over the initial 3 months.

Applicable discount rates (updated from 31 July):

- 10.00%: operating with >3 months track record
- 10.25%: operating with <3 months track record
- 10.50%: under construction



Interest rate assumptions (updated from 31 July): 4.5% (2023); 3% (2024); 2.5% (2025); 2% (2026+)

Adviser Information

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