

Harmony Energy Income Trust plc

Quarterly update for the period ended 31 January 2024



Introduction

Harmony Energy Income Trust plc (the “Company”) invests in utility-scale battery energy storage system (“BESS”) assets in Great Britain (“GB”).

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.

Key Highlights

- 2 pence per Ordinary Share dividend paid on 22 December 2023, totalling 8 pence per Ordinary Share distributed in relation to the Financial Year 2023, in line with target.
- The unaudited NAV at 31 January 2024 was £236.3 million, or 104.06 pence per Ordinary Share, a decrease of 11.34 pence per Ordinary Share (-9.83%) compared to 31 October 2023. The decrease was driven by weaker-than-expected GB BESS revenues over the quarter, resulting in the Investment Adviser (“IA”) reducing the 2024 and 2025 modelled revenue assumptions. This reduction will be reviewed by the Independent Valuer for the next quarterly NAV update, with reference to new long-term BESS revenue forecasts expected to be published by independent third-party providers in April.
- Following the end of the quarter (as previously announced):
 - the Company secured contracts in the T-1 Capacity Market auction for 2024/25 delivery, adding £1.7 million of contracted income not yet factored into valuation models;
 - the Company postponed the declaration of the first FY 2024 quarterly dividend of 2 pence per Ordinary Share, pending a review of the Company’s dividend policy; and
 - the Company completed a refinancing of its debt facilities on 21 February 2024, lowering costs.

Portfolio Update

The Company’s Portfolio consists of eight 2-hour duration BESS projects totalling 790.8 MWh / 395.4 MW, of which 555 MWh / 227.5 MW (70% of the Portfolio across five projects) is operational.

Of the remaining three projects, the Rusholme project (70 MWh / 35 MW) has completed BESS installation and the DNO has re-mobilised on site to execute requisite connection works. At the Wormald Green and Hawthorn Pit projects, the contractor is progressing the installation and connection of the Envision battery modules, which are on site.

Following the end of the quarter, the Company secured additional contracts in the T-1 Capacity Market auction held in February 2024, for delivery between October 2024 and September 2025. This increases contracted revenue over the delivery period to £3.2 million, of which £1.7 million has not yet been factored into the Company’s valuation models but will be included in the next quarterly update.

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

External Debt Update

The Company drew the balance of its £130 million of senior debt facilities during the quarter in order to fund construction milestone payments. Post-quarter end, the Company completed the amendment and restatement of its debt facilities, structuring a long-term sculpted amortisation profile until February 2031 with reduced margins. Applicable debt covenant ratios have been reset against updated revenue forecasts to ensure ongoing headroom in the current revenue environment. The Company executed an interest rate swap on 22 February 2024 which “fixes” SONIA at a rate of 4.10% per annum. When combined with the margin of 2.75% applicable for the initial two years of the new facility, the total cost of debt is therefore 6.85%.

Key Statistics as at 31 January 2024

Share price (pence)	57.10
NAV per share (pence)	104.06
Net Assets	£236.35 million
Market Cap.	£129.69 million
Target annual dividend (payable quarterly)	Under Review ¹
Shares in issue	227,128,295
Share price premium/(discount) to NAV	(45.1)%
Ongoing charges	1.16% 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	Experienced developer of renewable and battery storage projects

Strong focus on ESG



Signatory of:



www.heitp.co.uk

1. Payments anticipated in March, June, September and December each year. On 2 February 2024, the Company announced a postponement to its March 2024 dividend. See RNS for further details.
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.

Market Commentary

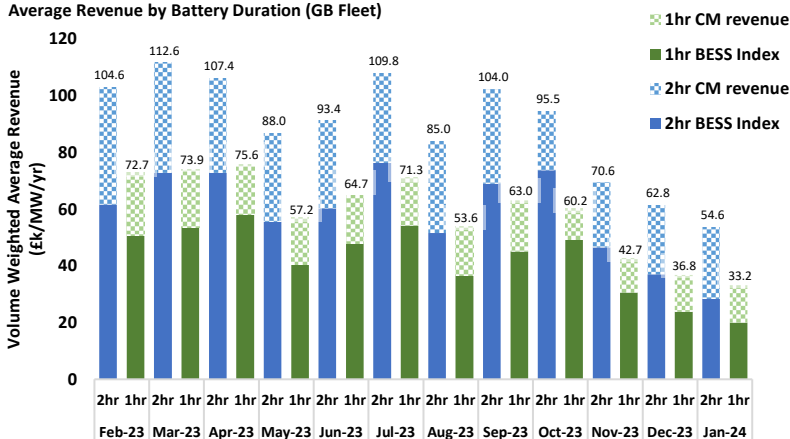
Average GB BESS revenues over the quarter were disappointing, declining month-on-month. Average day-ahead wholesale power market spreads narrowed to £52/MWh in January, the lowest since June 2021 and 64% lower than January 2023. This correlates with a continued decline in gas prices and carbon prices over the quarter, coupled with relatively mild weather. In November, National Grid ESO (“NG ESO”) upgraded its auction methodology and bidding structure in relation to ancillary services. This is known as the Enduring Auction Capability (“EAC”). Amongst other changes, the EAC allows clearing prices for ancillary services to be negative, further reducing net ancillary service revenues for BESS. Continued depressed pricing in ancillary services markets is encouraging greater participation in arbitrage revenue strategies (wholesale trading and Balancing Mechanism), which are more favourable for 2-hour duration BESS relative to shorter-duration BESS.

The launch of the Open Balancing Platform (“OBP”) by NG ESO in December 2023 was interrupted by technical issues and re-launched in early January 2024. Volumes captured by BESS in the Balancing Mechanism increased over January but inconsistent application of the new software by NG ESO has created challenges for revenue optimisers looking to predict market behaviours. These teething issues are expected to be overcome and a widening of wholesale spreads is expected to generate greater revenues for BESS via the Balancing Mechanism.

Portfolio Performance

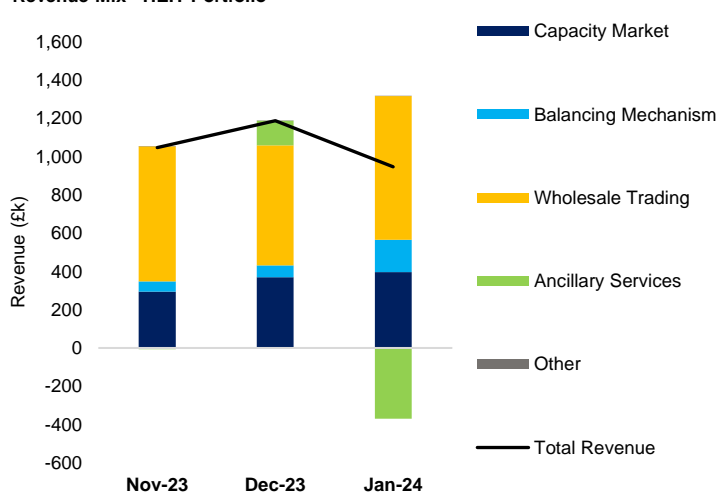
The Company’s operational portfolio generated revenue of £3.2 million over the period. The chart below shows the revenue mix with 74% coming from wholesale and Balancing Mechanism trading. Balancing Mechanism volume has increased since the re-launch of OBP in January, but the prevalence of low wholesale market spreads means that the full impact is yet to be seen.

Average Revenue by Battery Duration (GB Fleet)



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.

Revenue Mix - HEIT Portfolio

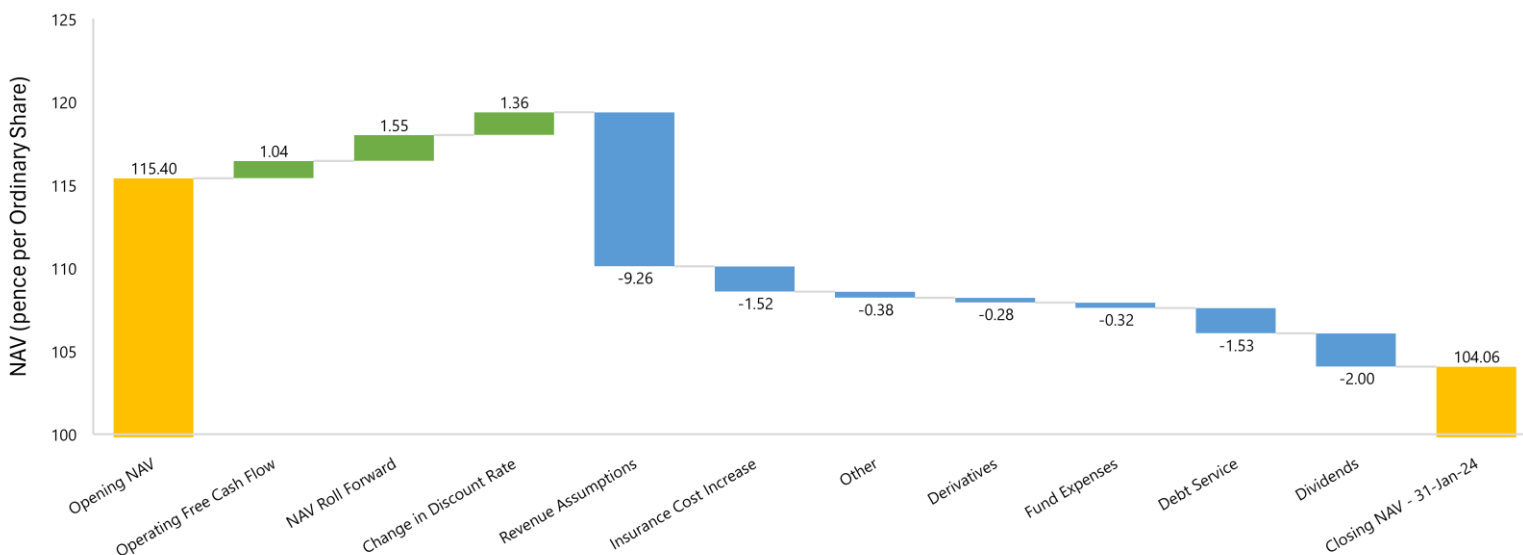


NAV Update 31 January 2024

As at 31 January 2024, the Company’s unaudited NAV was calculated to be £236.35 million (104.06 pence per Ordinary Share). This represents a decrease of 11.34 pence per Ordinary Share (-9.83%) compared to 31 October 2023. The principal movement relates to a reduction in modelled revenues throughout 2024 and 2025 (-9.26 pence per Ordinary Share). See overleaf for further details. Other negative movements relate to an increase in budgeted cost for operational project insurance (-1.52 pence per Ordinary Share) following recent observed trends, a reduction in the value of the Company’s interest rate cap (-0.28 pence per Ordinary Share), debt service over the period (-1.53 pence per Ordinary Share) and the dividend paid in December 2023 (-2.00 pence per Ordinary Share).

The above negative movements were partially offset by (i) the roll forward effect as “under construction” projects become closer to revenue generation (+1.55 pence per Ordinary Share); and (ii) a reduction in discount rate of the Little Raith and Bumpers projects from 10.25% to 10.00% following three months of operations (combined +1.36 pence per Ordinary Share) and operating free cash flow generated (+1.04 pence per Ordinary Share).

Quarterly NAV Bridge (NAV per Share)



Revised Revenue Assumptions and Discount Rates

Having analysed revenues currently being generated by BESS projects in GB, the Company is publishing updated forward-looking revenue assumptions used for performing asset valuations. Compared to previous assumptions, this significantly reduces modelled revenues in 2024 and 2025, which translates to a negative impact on NAV.

Revised long-term forecasts are expected to be published by independent providers in April 2024. However the IA has taken this action now in recognition that the current forecasts do not reflect the near-term revenue environment being experienced.

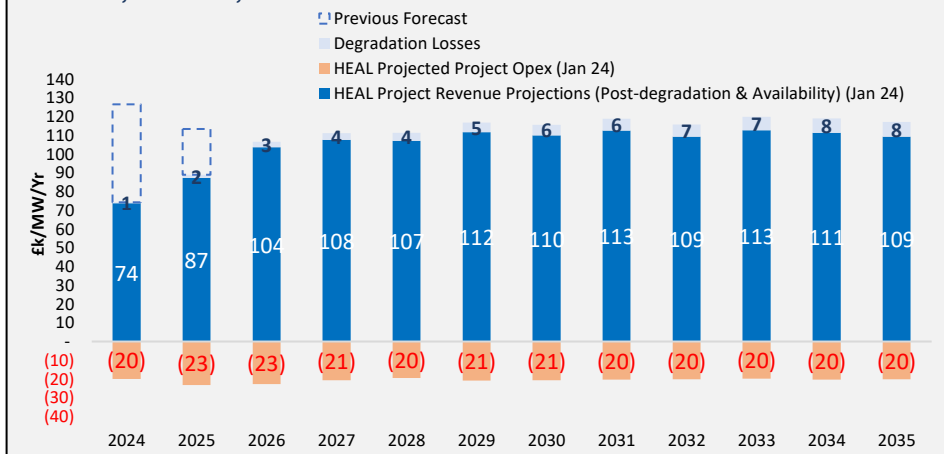
The IA will analyse the new forecasts when they are published and will work with the Company's Independent Valuer to agree revised short and long-term revenue assumptions during the next quarterly valuation process.

Applicable discount rates (unchanged from 31 October):

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

Revenue & Cost Assumptions (for valuation purposes) 2-hr BESS, £k/MW/Yr, real Jan 2023

* Years are calendar years



Inflation assumptions: 4.5% (2023); 3% (2024); 2.5% (2025); 2% (2026+)



1	PILLSWOOD 196 MWh / 98 MW STATUS: OPERATIONAL
2	BROADDITCH 22 MWh / 11 MW STATUS: OPERATIONAL
3	FARNHAM 40 MWh / 20 MW STATUS: OPERATIONAL
4	RUSHOLME 70 MWh / 35 MW TARGET COD: Q2 2024 STATUS: COLD COMMISSIONED
5	BUMPERS 198 MWh / 99 MW STATUS: OPERATIONAL
6	LITTLE RAITH 99 MWh / 49.5 MW STATUS: OPERATIONAL
7	WORMALD GREEN 66 MWh / 33 MW TARGET COD: Q2 2024 STATUS: UNDER CONSTRUCTION
8	HAWTHORN PIT 92.8 MWh / 46.4 MW TARGET COD: Q2 2024 STATUS: UNDER CONSTRUCTION



● OPERATIONAL ASSETS (555 MWh / 277.5 MW)
● UNDER CONSTRUCTION/COLD COMMISSIONED ASSETS (235.8 MWh / 117.9 MW)

Adviser Information

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