

Harmony Energy Income Trust plc

Quarterly update for the period ended 30 April 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

- Portfolio revenues up 48% from the previous quarter, driven by increasing wholesale spreads and increased occurrence of negative wholesale power prices.
- The unaudited NAV at 30 April 2024 was £218.5 million, or 96.21 pence per Ordinary Share, a decrease of 7.85 pence per Ordinary Share (-7.5%) compared to 31 January 2024. The decrease was driven by a reduction in third-party revenue forecasts. The IA had previously reduced modelled assumptions for 2024 and 2025 in anticipation of this, and has now applied further reductions.
- Amendment to the Company’s dividend policy to be an ongoing commitment to distribute, by way of interim dividends and subject to maintenance of a suitable working capital buffer, a minimum of 85% of operational free cash flow, such amounts to be determined by the Board on a semi-annual basis.
- Cancellation of the (previously postponed) first FY2024 quarterly dividend. The Board does not anticipate being in a position to declare a dividend in line with the new policy for the remainder of the current financial year, although based upon current market forecasts it is anticipated that a covered dividend will be paid in 2025.
- Target Commercial Operations Dates for the three remaining BESS projects in the Company’s portfolio have been pushed back slightly and the projects are now expected to commence operations in Q3 2024. In respect of the Hawthorn Pit and Wormald Green projects the Company has begun claiming liquidated damages from its contractor to compensate for lost revenue.
- Asset sale process launched to seek offers for some or all of the Company’s assets. Intention to maximise value and demonstrate the continuing disconnect with the Share price.

Portfolio Update

Unfortunately, both the Company’s Wormald Green and Hawthorn Pit projects have suffered delays to energisation, caused by the balance-of-plant contractor running behind schedule. Latest estimates now assume these projects will commence commercial operations during Q3 2024. The IA is collaborating closely with the contractor to expedite completion as soon as possible. In the meantime, the Company has begun to exercise its contractual rights to claim liquidated damages to compensate for the lost revenue opportunity. The liquidated damages claimed have not yet been recognised in the Company’s revenue updates.

With regard to the Rusholme project, minor delays to the DNO’s connection programme have resulted in the proposed energisation date slipping into early Q3 2024. The Company is working closely with Tesla to ensure that, post energisation, commissioning can be expedited so that the project is revenue generating as quickly as possible.

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	Q3 2024	Cold Commissioned
Wormald Green	66 / 33	Yorkshire	Q3 2024	Under Construction
Hawthorn Pit	99.8 / 49.9	County Durham	Q3 2024	Under Construction
Total	790.8 / 395.4			

* Dates are based on the calendar year

Asset Sale Process

In order to explore potential methods of delivering value to shareholders the Company has engaged JLL with a mandate to seek offers for all or some of the Company’s assets in order to maximise value and demonstrate the continuing disconnect with the Share price. Any decision to divest the entire portfolio would only be taken in the event of a deliverable and credible offer being received at pricing which the Board considers attractive to Shareholders, and any such sale would be conditional upon shareholder consent under applicable law and in line with the Company’s prospectus.

Key Statistics as at 30 April 2024

Share price (pence)	46.80
NAV per share (pence)	96.21
Net Assets	£218.53 million
Market Cap.	£106.30 million
Target annual dividend	>85% of Operating Free Cash Flow
Shares in issue	227,128,295
Share price premium/(discount) to NAV	(51.4)%
Ongoing charges	1.07% 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 ¹
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”) ²	Investment Adviser
Harmony Energy Limited	Experienced developer of renewable and battery storage projects

Strong focus on ESG



Signatory of:



Market Commentary

Towards the end of March and continuing into April, day-ahead wholesale price spreads increased significantly. High penetration of wind generation in Great Britain coincided with periods of low demand. This led to multiple hours of negative wholesale power prices – periods where BESS can be remunerated for charging via the wholesale markets which in turn increases the revenue opportunity for BESS trading in the wholesale markets and balancing mechanism. Up to 19 April, the GB electricity market experienced more than half the number of negative pricing hours than in the whole of 2023.

The increase in wholesale spreads coincided with the launch of a new ancillary service, Balancing Reserve (“BR”) and the annulment of the “15-minute rule”, allowing BESS to be “called” in the BM for longer durations (and therefore transacting greater volumes of MWh). Since these changes were introduced, 2-hour duration BESS have enjoyed 2.5x greater increase in BM dispatch volumes than shorter-duration BESS (20 MWh/MW versus 8 MWh/MW. Source: Modo Energy). HEIT’s projects have seen a 3x increase in BM volume compared to the period of November 2023 to February 2024.

Pricing of ancillary services also benefitted from the increase in wholesale market spreads, as BESS operators raised their auction bids to match. Clearing prices for ancillary services increased 43% in April compared to March.

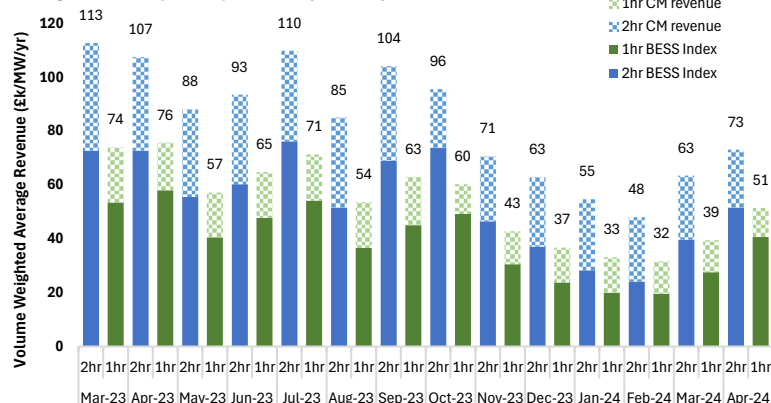
Portfolio Performance

Having an exclusively 2-hr duration portfolio, the Company is well positioned to benefit from the increasing wholesale spreads and BM volumes as described above. Average monthly captured BM volumes grew c.300% across March and April, compared to the average across the first four months of the financial year.

The Company’s operational portfolio generated revenue (net of all electricity import charges and state of charge management costs) of £4.7 million over the period (£68.7k/MW/Yr). This represents an improvement of c.48% from the previous quarter (£46.3k/MW/Yr). As previously reported, the Company has recognised additional revenue during February 2024 relating to the Embedded Export Tariff (£422k).

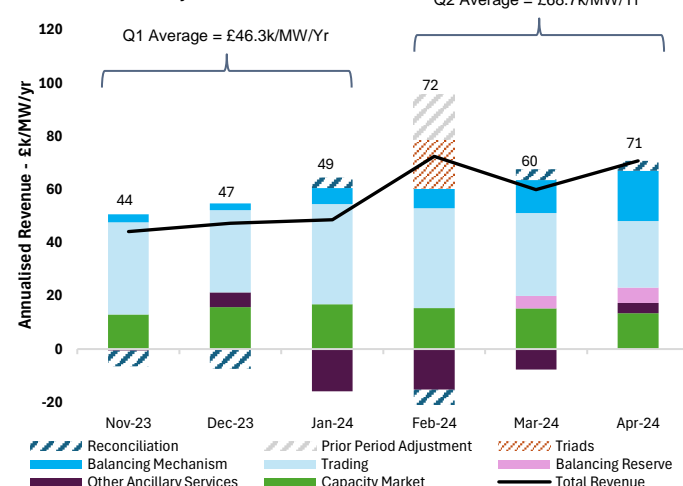
The portfolio encountered a higher-than-usual number of outage events during the quarter, mostly for short-term DNO technical works. The Little Raith project was particularly impacted during April whilst the DNO addressed issues at the local sub-station. The IA estimates that, had the portfolio been fully available during April, the revenue for that month would have been c.£80k/MW/Yr.

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.

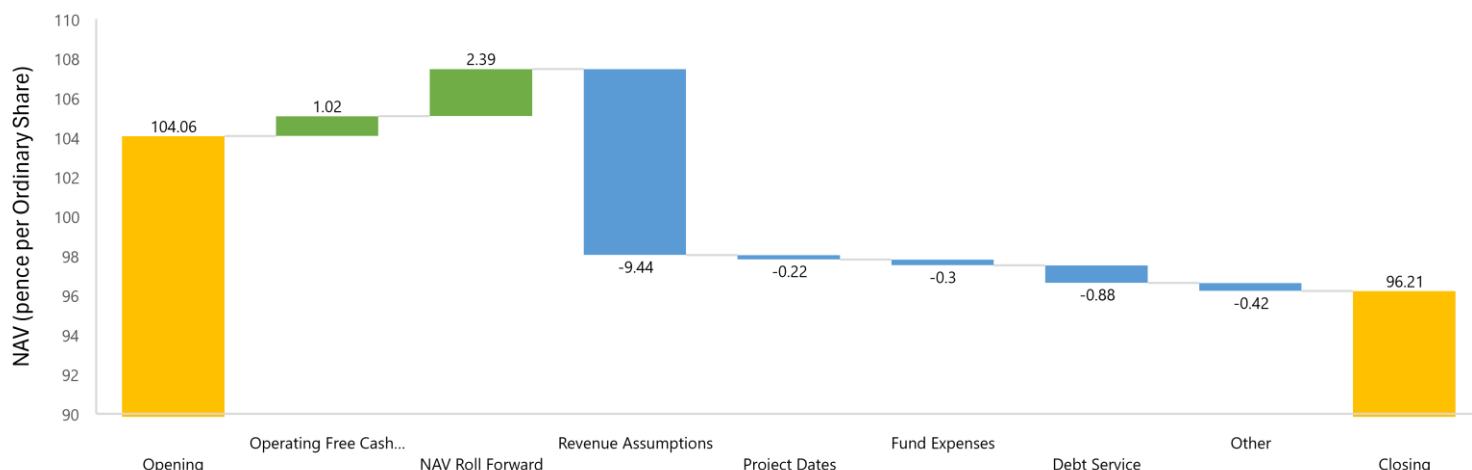
HEIT Portfolio - Monthly Revenue Stack



NAV Update 30 April 2024

As at 30 April 2024, the Company’s unaudited NAV was calculated to be £218.53 million (96.21 pence per Ordinary Share). This represents a decrease of 7.85 pence per Ordinary Share (-7.54%) compared to 31 January 2024. The principal movement relates to a reduction in modelled revenues with the largest reduction affecting the period between 2024 and 2029 (-9.44 pence per Ordinary Share). Other movements are shown in the chart below.

Quarterly NAV Bridge (NAV per Share)



Revised Revenue Assumptions and Discount Rates

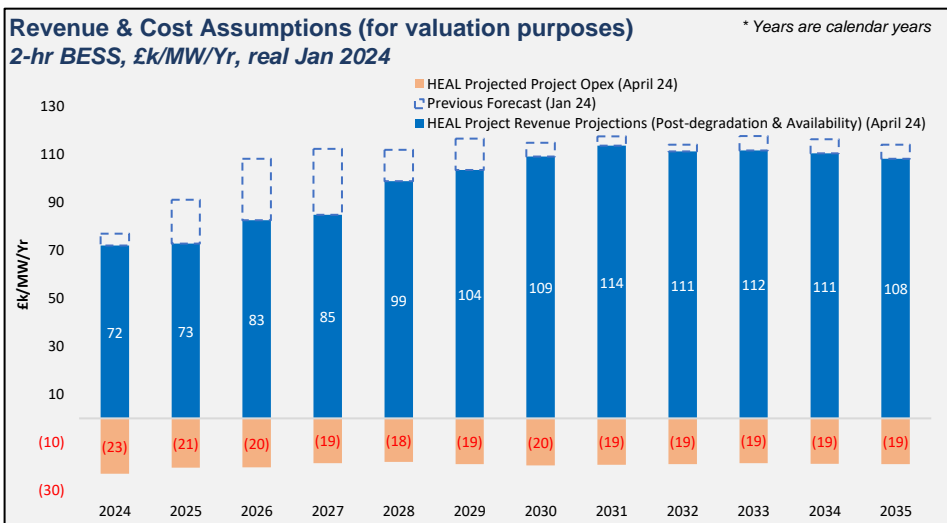
Having analysed revised long-term forecasts published by independent providers, the IA has reduced modelled revenues for the portfolio. The largest reduction is in relation to the period between 2024 and 2029 during which modelled revenues are now 17% lower than previously, compared to the assumptions used in the 31 January 2024 NAV update.

Near-term revenue forecasts have reduced predominantly as a result of lower gas prices, with gas futures pricing providing a key input to the models used by independent providers. Forecast demand has also reduced in the near-term, which eases pressure on the electricity system and reduces the number of "scarcity events" during which electricity pricing can become very high.

Discount rates and inflation assumptions remain unchanged.

Applicable discount rates (unchanged from 31 January):

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



Inflation assumptions: 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: Q3 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: Q3 2024 STATUS: UNDER CONSTRUCTION
8 HAWTHORN PIT	92.8 MWh / 46.4 MW TARGET COD: Q3 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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