RNS Strategy/Company/Operations Update

HARMONY ENERGY INCOME TRUST PLC

Company Update

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3 May 2022

Harmony Energy Income Trust plc
("HEIT" or the "Company")

Company Update

Harmony Energy Income Trust plc, an Investment Trust that invests in energy storage assets in Great Britain, today announces a number of updates since the Company's last NAV and Portfolio update on 22 February 2022.

Key Highlights

- Portfolio Update - construction progressing, expedited schedule for Pillswood Project, two further engineering, procurement and construction ("EPC") contracts signed
- Revised EPC arrangements to reflect certain contractual enhancements and cost increases for the Company
- Increase in projected revenue assumptions of c.17 per cent on a NPV basis, confirmed by independent valuer and based on revised independent revenue forecasts, leading to an expected NAV increase
- Debt facility agreed (subject to final contract) of up to £60 million on competitive terms
- By end of 2022, the Company expects to have 109MW of operating projects, 203.5MW "under construction" and a pipeline of c.500MW "shovel ready" projects ready for acquisition (subject to financing). All projects expected to be 2-hour duration battery systems
- Investment Adviser estimates a net increase in IRR across the Company's portfolio and the dividend target (as published at IPO) will be maintained

Portfolio Progress and Updated Contractual Arrangements

Portfolio Progress
Since the last update on 22 February 2022, good progress continues on the Seed Portfolio Projects. On 29 April 2022 the Company executed two further EPC contracts with Tesla for the supply, construction, maintenance and optimisation of the Farnham (20MW) and Rusholme (35MW) projects, bringing the total number of projects categorised as "under construction" to four.

In addition, the contracts for Pillswood (Phases 1 & 2 - each 49MW, total 98MW) have been varied to accelerate the target commercial operations date by around five months combined across both phases as further described below. In relation to the Rusholme Project (35MW), the target commercial operations date has been moved back slightly by three weeks. Target commercial operations dates for the remaining Seed Portfolio Projects are unchanged and are set out in the table below.

Project	MW / MWh	Location	Target Commercial	Status

			Operations Date	
Pillswood	98 / 196	Yorkshire	November 2022	Under Construction
Broadditch	11 / 22	Kent	December 2022	Under Construction
Farnham	20 / 40	Surrey	March 2023	Under Construction
Rusholme	35 / 70	Yorkshire	April 2023	Under Construction
Little Raith	49.5 / 99	Fife	October 2023	Shovel Ready
Total	**213.5 / 427**			

The Bumpers 99MW project (the "Advanced Project") is expected to be acquired by the Company shortly. This will take the portfolio to 312.5MW (625MWh).

In addition, Harmony Energy Limited continues to develop additional pipeline projects under its control for acquisition by the Company in due course (subject to financing) as part of the Company's overall 1GW pipeline of BESS projects pursuant to the pipeline agreement. By 31 December 2022, the Company expects to have 109MW of operating projects, 203.5MW "under construction" and c.500MW "shovel ready" projects ready for acquisition (subject to financing). All pipeline projects are expected to be at least 2-hour duration battery systems.

Updated Contractual Arrangements

High global demand for batteries and rising costs of key raw materials (for example the price of lithium carbonate, a key battery component, which has increased by over 250 per cent. in the past seven months) has increased pressure on project budgets across the GB battery storage sector. In light of these challenges and reflecting the strong working relationship between Tesla and Harmony Energy, the Company and Tesla have agreed a suite of contractual amendments. The amendments allow Tesla to increase pricing for the three remaining Seed Portfolio Projects (and the Advanced Project) but simultaneously grant the Company enhanced contractual terms which allow the Company to maximise profitability in current strong revenue market conditions, resulting in a neutral impact on the Company's base case returns.

The key capex increase is primarily driven by increases in Megapack prices in aggregate across the Rusholme, Farnham, Little Raith Projects (and the Advanced Project), however these are substantially mitigated by the following new arrangements:

i. a reduction in the revenue optimisation fee chargeable by Tesla for its Autobidder services under the Revenue Optimisation Agreements across all Seed Portfolio Projects (and the Advanced Project);
ii. improved warranty terms allowing higher cycling over project life across all Seed Portfolio Projects (and the Advanced Project);
iii. an agreement to bring forward the target commercial operations date for both phases of the Pillswood project to November 2022 (from December 2022 and March 2023 respectively), meaning that all 98MW (196MWh) is now scheduled to be generating revenue for the Company significantly earlier than first timetabled. This increases the capability of the Company to take advantage of the current high revenues prevailing in the market;
iv. in relation to the Advanced Project, the capex increase will be fully off-set by a "£-for-£" reduction in the consideration due to Harmony Energy Limited for such project, meaning that Harmony Energy Limited will be entitled to a significantly lower consideration amount, currently estimated to be less than £1.0 million, payable in consideration shares (being ordinary shares to be issued at a price equal to the higher of (i) the most recent published NAV per ordinary share; or (ii) the average of the last ten business days closing price per ordinary share). This ensures that the Company's all-in funding requirement for the Advanced Project remains at the expected £750,000 per MW capacity; and
v. payment of a large proportion of the increased capex will be deferred until the date of commercial operations of the final project within the Seed Portfolio, Little Raith (currently expected to occur in October 2023), subject to a long-stop date of 31 December 2023. Note that the commercial operations date for the Advanced Project is scheduled to occur several months in advance of Little Raith.

These new arrangements have been reflected in an amended and restated Framework Agreement, revised contracts regarding the Pillswood and Broadditch projects, and the new contracts in respect of Farnham and Rusholme. The pipeline agreement has also been varied to reflect the consideration offset in relation to the acquisition of the Advanced Project.

Certain costs in relation to each project, the 'civils' works, are variable up to the signing of the relevant EPC contract in which those costs are then fixed following receipt of tenders from sub-contractors. As such, an aggregate 24.7 per cent. (£3.8 million) of the cash consideration in respect of the Seed Portfolio was deferred (the "Deferred Consideration") and withheld to offset any increase in the Company's variable capex budget between the date of acquisition and the date of contract signing. Further to the execution of the EPC contracts for Rusholme and Farnham, all pricing is now fixed for the Seed Portfolio, with Little Raith remaining as the only exception. Whilst achieved prices are in excess of those budgeted at the time of IPO, most of this additional cost has been borne by a corresponding reduction in the Deferred Consideration, thus shielding the Company from the majority of such increases. The Company has also introduced additional contingency to project budgets over and above these price increases as a prudent measure for valuation purposes.

When taking this additional contingency into account, and incorporating the additional capex for the Rusholme, Farnham, Little Raith and Bumpers Megapacks (as outlined above) the current modelled budget for the Seed Portfolio (and Advanced Project) has increased by 7.3 per cent.

Market Update & Revenue Forecasts

Battery storage projects in Great Britain have continued to enjoy strong revenue performance from both ancillary services and wholesale energy trading with existing 2-hour batteries earning an average of c.£200k per MW per annum between January and March 2022. April saw the launch of two additional ancillary services which are currently under-supplied, resulting in even higher performance for those operating assets. Whilst these markets are expected to stabilise, the overall market conditions are expected to remain strong in a high gas price environment which, according to independent revenue projections, is not expected to stabilise until 2026.

Independent revenue forecasts received by the Investment Adviser in April 2022 are around 27 per cent. higher than previous forecasts (dated November 2021) on an NPV basis. The Investment Adviser produces its own revenue projections which take into account independent forecasts as well as portfolio specific items. The Company's Independent Valuer has now agreed an updated revenue forecast for the Company which is 17 per cent. higher than that which was considered when calculating the Company's NAV position as at 31 January 2022. This will be fully confirmed and commented upon in the Company's next NAV update for 30 April which is due to be published in mid-May.

Indicative NAV Update

Taking account of the revised revenue forecasts and the revised contractual arrangements, the next NAV is expected to indicatively increase by c.9 pence per share. This does not take into account the signing of the EPC contracts or any other appropriate NAV movements which will be reflected in the 30 April 2022 NAV to be published shortly. The new arrangements are not expected to change the Company's dividend target and are expected to have a positive impact on IRR once the Advanced Project is acquired.

Once acquired, the Investment Adviser currently expects the Advanced Project to increase NAV by a further 8 pence per share. Further valuation uplifts are expected as projects move through the construction phase and into operations.

New Debt Facility

As previously announced, the Company was in advanced discussions with a lender to secure a debt facility to fund (among other things) the consideration of the acquisition and construction of the Advanced Project. The Company is pleased to announce that it has reached agreement (subject to contract) on commercial terms with National Westminster Bank PLC in relation to a debt facility of up to £60 million on terms which the Board and the Investment Adviser believes to be competitive in the current market. Documentation in respect of this is expected to be finalised and executed shortly.

Future Pipeline

By 31 December 2022 the Company anticipates a pipeline of c.500MW "shovel ready" projects, over which it has exclusivity, will be ready for acquisition (subject to financing). All projects are expected to be at least 2-hour duration battery systems. Under the terms of the pipeline agreement with Harmony Energy Limited, the Company has the right to acquire these projects based on a discount rate of no less than 10 per cent. unlevered, ensuring the Company will have access to attractive projects to drive growth regardless of potential cost increases prevailing in the wider market.

Paul Mason, Managing Director of the Investment Adviser commented:

"*The case for battery storage remains compelling with unprecedented energy prices and the ever-pressing need for renewable energy. Holes Bay and Contego, the two operating Tesla battery assets developed by Harmony Energy (in partnership with FRV) are two of the top performing battery assets in Great Britain. Both are testament to the two-hour duration battery and Autobidder software which we fundamentally believe is the best in the market at the current time*."

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About Harmony Energy Advisors Limited (the "Investment Adviser")

The Investment Adviser is a wholly owned subsidiary of Harmony Energy Limited.

The management team of the Investment Adviser have been exclusively focused 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.

Important Information

This announcement contains inside information for the purposes of Article 7 of MAR. Upon publication of this announcement, the inside information is now considered to be in the public domain for the purposes of MAR. The person responsible for arranging the release of this announcement on behalf of the Company is Harmony Energy Advisors Limited.

This announcement does not constitute an offer to sell or the solicitation of an offer to acquire or subscribe for shares in the Company in any jurisdiction. This distribution of this announcement outside the UK may be restricted by law. No action has been taken by the Company that would permit possession of this announcement in any jurisdiction outside the UK where action for that purpose is required. Persons outside the UK who come into possession of this announcement should inform themselves about the distribution of this announcement in their particular jurisdiction.

This announcement contains (or may contain) certain forward-looking statements with respect to certain of the Company's plans and/or the plans of one or more of its investee companies and their respective current goals and expectations relating to their respective future financial condition and performance and which involve a number of risks and uncertainties. The Company's target returns are a target only and there is no guarantee that these will be achieved. This Company cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements.

It should also be noted that any future NAV per Share announced by the Company in due course will, in addition to the matters described in this announcement, also be affected by valuation movements in the Company's portfolio and other factors including, without limitation, purchase prices of battery energy storage systems and components, project development and construction costs, income and pricing from contracts with National Grid ESO and other counterparties, the potential for trading profitability in the wholesale electricity markets and/or Balancing Mechanism, performance of the Company's investments, and the availability of projects which meet the Company's minimum return parameters in accordance with the Company's investment policy.

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