HARMONY ENERGY INCOME TRUST PLC

TRADING UPDATE

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

Trading Update

Harmony Energy Income Trust plc, which invests in battery energy storage system (**"BESS"**) assets in Great Britain ("GB"), today provides a trading update ahead of the publication of its quarterly Net Asset Value update and audited annual results later this month.

Weaker Revenue Environment in 2023 and January 2024

BESS revenues for the year ended 31 October 2023 were markedly lower than revenue generated in the same period in 2022. Whilst a reduction from the remarkable highs of 2022 was expected and built into third party revenue forecasts, the scale and the speed of the reduction has exceeded market expectations.

There are multiple drivers of this reduction in revenue, both macro and sector-specific:

- Saturation of ancillary service markets. The high rate of build-out of BESS in GB led to saturation of ancillary services and has driven clearing prices to record low levels. This was widely anticipated and the Company positioned its 2-hr duration portfolio specifically to protect against this event and take maximum advantage of the inevitable shift by BESS towards wholesale market revenue strategies and the Balancing Mechanism ("BM").
- Reduction in wholesale power price volatility and spreads. As a 2-hr duration portfolio, this is more relevant to the Company than ancillary services. Wholesale spreads in FY 2023 and FQ1 2024 have narrowed primarily due to a reduction in natural gas prices, itself due to milder than expected weather and high levels of European reserves. In addition, GB has imported a large volume of energy from Europe (via interconnectors) and high consumer prices have encouraged a material reduction in consumer energy usage.

  Wholesale price spreads are forecast by independent experts to increase during 2024 and beyond. This is driven by a range of factors including increased consumer energy demand (as the cost-of-living crisis eases), continued electrification of the country's heating and transport infrastructure, greater penetration of intermittent renewables and an increase in pricing for natural gas and carbon.
- Implementation issues with National Grid ESO ("NGESO") Open Balancing Platform ("OBP"). Another key factor in recent revenue weakness is NGESO's continued sporadic use of BESS in the BM. Despite a well-publicised policy and comprehensive plan from NGESO to increase BESS dispatch rates in the BM via process and software enhancements over 2024 and 2025, the December 2023 launch of the new "bulk dispatch" software was curtailed due to technical issues. Since its re-launch on 8 January 2024, NGESO appears to only be using OBP intermittently, with the Company's portfolio seeing some days of high BM volume, and some of zero. BESS projects utilise algorithms and AI software to execute revenue strategies, and so the inconsistent use of OBP by NGESO not only limits BESS volumes in the BM, but also creates uncertainty over how much daily capacity BESS can dedicate to other strategies and services. The Investment Adviser continues to have dialogue on this topic with NGESO directly and also via stakeholder interest groups. NGESO has a published ambition to operate the GB system with zero carbon emissions by 2025 (i.e. reducing its use of coal and gas). A consistent use of OBP in relation to BESS by NGESO would, in the Investment Adviser's opinion, not only help accelerate NGESO's progress towards this goal, but also result in a near-immediate and marked increase in the Company's revenue performance.

Despite the conditions described above, the Company's operating Portfolio continues to out-perform peers (on a £/MW basis). The Company's Pillswood (Phase 1) and (Phase 2) projects ranked #1 and #3 respectively for the calendar year 2023, and every one of the Company's five operating assets appear in the Top-10 leaderboard for January 2024 (excluding non-BM units and estimated revenue from the Embedded Export Tariff) *(Source: Modo Energy)*.

Operational free cash flow is forecast to increase in 2024 as the Company's remaining three projects (c. 236 MWh / 118 MW - c.30% of the current portfolio) complete construction and begin operations. The Company has sufficient cash reserves to complete construction of these projects.

In addition, revenues going forward will be supported by the Company's existing Capacity Market contracts, for which delivery only began in October 2023.

Postponement of First Quarterly Dividend for FY2024, and Strategy for 2024

In line with its stated dividend policy, the Company distributed 8 pence per share to Shareholders in relation to FY ended 31 October 2023. The first quarterly distribution in relation to FY 2024 (2 pence per share) was expected to be declared later this month and paid in March. However the Board, with support from the Investment Adviser has resolved to postpone this declaration.

While the reasons for the recent low revenue environment are understood, and the market conditions are expected to improve, the short-term outlook remains uncertain. If these conditions do continue for an extended period, this will impact on the ability of the Company to declare and make distributions. It is well understood that BESS revenues can vary across the course of a year and therefore prudent cash management is required.

The Board recognises the importance of dividends to Shareholders and therefore is preparing to implement a series of short-term actions which would better position the Company for long-term stability and growth. These actions will include a restructuring of the Company's existing debt facilities (to reflect that 70% of the portfolio's MW capacity is now operational), coupled with one or more asset sales. Any cash proceeds from such sales would be used, in priority, to reduce gearing and then to fund future dividend distributions for FY 2024 and 2025. These distributions could take the form of income and/or capital distributions. The ambition of the Company remains the payment of 8 pence per share per annum. Any funds available after the payment of dividends could be used to repurchase shares. Further updates will be communicated to Shareholders in due course.

Asset Valuations have been Consistent

Despite the recent weak revenue environment during 2023, it is important to note that discount rates applied to the Company's "operating" and "under construction" assets remained stable. Asset valuations have been supported by long-term average revenue forecasts from independent experts, as well as evidence of market transactions. The sale by the Company of its Rye Common asset in September 2023, at a 1.5% premium to the carrying value, is an example. The Investment Adviser continues to opine, based upon its own enquiries and intelligence gathered from other industry stakeholders, that there remains a high level of appetite amongst private investors for BESS assets, especially whilst 2-hr duration operational BESS projects are relatively scarce and well-positioned to outperform once revenues conditions improve.

Full Year Results for the year ended 31 December 2023 Results and Q1 FY2024 NAV

The Company is currently completing the audit of its financial results for the year ended 31 October 2023 and expects to publish its annual report and accounts alongside its Q1 NAV for the period ended 31 January 2024 in the week commencing 26 February 2024.

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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 focussed on the energy storage sector (across multiple projects) in Great Britain for over seven years, both from the point of view of asset owner/developer and in a third-party advisory capacity. The Investment Adviser is an appointed representative of Laven Advisors LLP, which is authorised and regulated by the Financial Conduct Authority.

Important Information

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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