

28 February 2024

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

**Results for the Financial Year Ended 31 October 2023**

Harmony Energy Income Trust plc, which invests in commercial scale battery energy storage systems ("**BESS**") in Great Britain, announces its results for the financial year ended the 31 October 2023 (the "**Period**").

**Financial Highlights** (as at 31 October 2023)

- 8 assets with total capacity of 790.8 MWh / 395.4 MW
- 70% of portfolio operational (by MW capacity)
- Net asset value of £262.12m (115.40p per share)
- Dividend declared and paid in relation to the Period: 8p per Ordinary Share
- Tonnes of CO<sub>2</sub>e emissions avoided: 15,415 (estimated)

2023 has seen the Company make huge leaps with its operational portfolio, with five projects coming online, building on the success of the previous two years, including the Bumpers project (the Company's largest BESS project, and the largest in Europe by MWh). The Company now owns two of the three largest operational BESS assets in Europe (by MWh), including the multi-award winning Pillswood site that was energised in November 2022. As at 31 October 2023, the Company had five operational, one cold commissioned and two "under construction" 2-hour duration BESS projects, with a total capacity of 790.8 MWh / 395.4 MW.

Conditions in the energy storage market and wider economy have been challenging and the current short-term weakness in revenues will require prudent management. However, independent revenue forecasts still predict that the Company can generate attractive returns, whilst contributing to net zero and delivering positive social and environmental impacts.

As at the close of business on 26 February 2024, the latest practicable date prior to the publication of this document, the Ordinary Share price was 39.50 pence and the NAV was 115.40 pence per Ordinary Share as at the 31 October 2023.

**Norman Crighton, Chair of Harmony Energy Income Trust plc, said:**

*"Our focus for this year has been on the delivery of the Company's portfolio through construction and ramping up of operations. The Board is pleased with the progress achieved in this regard. The Company's Pillswood site has been one of the best performing BESS sites in Great Britain during 2023 and the now energised 198 MWh/ 99MW Bumpers project is the joint-largest in Europe (by MWh), resulting in the portfolio moving from 0% to 70% operational within the 12 months since 31 October 2022.*

*It has been widely publicised that the GB BESS market, particularly post-Period end, has deteriorated. Despite this recent performance, independent market experts expect trading conditions to improve over the course of 2024. HEIT's longer-duration 2-hour batteries have continued to outperform shorter-duration BESS.*

*The Board and its advisers are working hard to find solutions to the challenges we, and the sector, currently face. Our key objectives looking forward are finishing construction of our outstanding projects, addressing the discount to the NAV, and maximising the Company's income. In doing so, we will continue to prove the value of BESS as an asset class and attractive investment opportunity, as well as demonstrating why HEIT is the best vehicle to access such opportunity."*

In accordance with Listing Rule 9.6.1 copies of the documents have been submitted to the UK Listing Authority, will shortly be available to view on the Company's corporate website at <https://www.heitp.co.uk/investors/results-reports-and-presentations/> and <https://www.heitp.co.uk/investors/shareholder-documents/>. The documents have also been submitted to the UK Listing Authority and will be shortly available for inspection from the National Storage Mechanism at: <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>.

**END**

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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 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.

**Chair's Statement**

Welcome, on behalf of the board of directors (the "**Board**"), to the second Annual Report and Accounts of Harmony Energy Income Trust plc ("**HEIT**" or the "**Company**") for the year ending 31 October 2023 (the "**Period**").

**NORMAN CRIGHTON**

**CHAIR**

The Period has seen both successes and challenges.

Impressive progress has been made in building out our portfolio, with 70% now operational. The sale of the Company's Rye Common project in September 2023 at a premium to carrying value demonstrated the quality of the Company's portfolio. Our supplier concentration risk has been reduced with the forming of new partnerships with suppliers of BESS equipment and revenue optimisation. Real progress has been made with our Environmental, Social, and Governance ("**ESG**") strategy and reporting. The Company's operational assets are supporting the UK's net zero ambition and helping to secure a more resilient and affordable domestic energy supply. The Company has declared and paid dividends totalling 8 pence per Ordinary Share in relation to the Period.

Whilst the portfolio has established a leading position relative to peers, a more challenging environment for BESS assets has emerged through 2023, limiting revenue opportunities. This challenging environment led to a reduction in revenue assumptions in late 2023 which was the primary reason that the Adjusted NAV per share fell 4.5% during the Period (against the restated figure). Actual revenues achieved have been weaker than independent forecasts and, coupled with higher interest rates, this has driven a reduction in the share price of the Company over the Period. Post-Period end, the Company announced a number of initiatives which the Board considered appropriate given the prevailing revenue environment. These initiatives include:

- progressing towards a fully operational portfolio and continuing to focus on maximising income, including ongoing engagement with National Grid Energy System Operator ("**National Grid ESO**") on its planned process improvements through which it intends to increase the utilisation of BESS in the Balancing Mechanism ("**BM**");
- a renegotiation of the Company's debt facilities to reflect the predominantly operating nature of the portfolio, reducing cost and structuring the tenor and covenant thresholds to secure the Company's long term financial health. This was completed on 21 February 2024;
- a postponement of the first quarterly dividend of the current financial year. According to independent forecasters, the Company was expected to generate sufficient revenue to meet its target of 8 pence per Share (on a fully covered basis) in 2023. Due to the historic seasonality of BESS revenues, a material portion of the Company's returns were expected to be generated in autumn and winter 2023, coinciding with the completion of the construction of two large projects. However, the price volatility witnessed since the start of the Ukraine conflict has resulted in periods where revenues have been both significantly higher and significantly lower than

independent forecasts. Unfortunately for the Company, the first period of operating performance of the Company's assets has coincided with a period of lower-than-expected revenues. Whilst the Board remains committed to meeting our objective of providing Shareholders with attractive and sustainable levels of returns over the medium to long term, the Board will review the dividend policy during H1 2024; and

- consideration of the most effective methods of delivering value to Shareholders over the short term. As part of this initiative, the Board has instructed the Investment Adviser to explore the sale of one or more assets, with the aim of demonstrating to the market the true value of the portfolio and the continuing disconnect with the Share price. The proceeds of any sale would be applied, at least partly, to reduce gearing. Depending on the level of proceeds the Board will also consider buying back Shares if the extreme discount to NAV at which the Ordinary Shares are trading persists. This strategy reflects the feedback we have received from Shareholders over recent weeks.

We will continue to engage proactively with Shareholders and to reflect on the range of views and preferences communicated, and will provide additional updates on strategy and trading in due course.

## **GROWTH OF OPERATING PORTFOLIO AND MULTIPLE AWARD WINS**

Despite the challenges referred to above, it is important to highlight the achievements of the Company during the Period.

Having acquired nine projects, either at or since IPO, the focus for this year was on delivery of the portfolio through construction and ramping up of operations. In this respect, the Board is pleased with the progress achieved, with multiple BESS projects completing construction. The 196 MWh / 98 MW Pillswood project was the first to commence operations in November 2022, with a further 359 MWh / 179.5 MW (across four projects) commencing commercial operations over the rest of the Period. The 198 MWh / 99 MW Bumpers project (energised in October 2023) is the Company's largest BESS project and the joint-largest in Europe (by MWh). As a result, the Company has moved from 0% to 70% operational within the 12 months since 31 October 2022. It is testament to the Investment Adviser's wider team, and the strength of our relationships with suppliers and Distribution Network Operators ("DNOs"), that these projects were delivered either in line with or earlier than expectations, during a challenging environment where delays in the sector have been common. To have delivered 555 MWh / 277.5 MW through construction by the second anniversary of the Company's IPO is a terrific achievement.

The Company successfully divested the 99 MW Rye Common project in September 2023 at a 1.5% premium to its carrying value. See further commentary on this in the NAV section below.

The Company's Pillswood site, which at the time of launch in November 2022 was Europe's largest BESS (by MWh), has been one of the best performing BESS sites in Great Britain during 2023. Pillswood has won multiple awards from industry stakeholders in 2023 including the "Utility Scale Storage Project of the Year" award at the Solar & Storage Live Awards, and the "Grid-scale Standalone Energy Storage Project of the Year" award at the Energy Storage Awards. The Board is confident that, as the portfolio's track record continues to grow, the Company's other assets will also outperform our peer group benchmark.

From October 2023 onwards, the Company's portfolio also began to benefit from contracted Capacity Market ("CM") payments as Pillswood, Broad ditch and Farnham commenced delivery of their respective T-1 CM contracts. The early energisations of Bumpers and Little Raith have allowed the Company to procure an additional £935k of revenue (not previously budgeted) by acquiring T-1 CM contract capacity.

## **KEY PARTNERSHIPS ANNOUNCED**

In line with the Company's policy to mitigate supplier concentration risk, 2023 saw diversification in two key commercial areas: BESS equipment supply and revenue optimisation. Both these initiatives relate to the Company's Hawthorn Pit (99.8 MWh / 49.9 MW) and Wormald Green (66 MWh / 33 MW) projects, which are due to complete construction in the first half of 2024.

Envision Energy International UK Limited was appointed in February 2023 to supply and install BESS equipment for these two projects. In September 2023, we were further delighted to announce that bp signed an agreement with HEIT to be revenue optimiser to these two projects.

## **UK BESS MARKET**

After the extraordinary macro-economic conditions and geo-political events witnessed during 2021 and 2022, the revenue environment during 2023 has fallen to levels below those expected by independent forecasters. The UK market for mainstream ancillary services has moved towards saturation. In addition, sustained low gas prices have limited wholesale power spreads and volumes contracted via the BM have been low. Whilst revenues during the Period were, themselves, lower than expected, the environment deteriorated further post-Period end over the first few months of the winter of 2023/24. Despite this recent performance, independent market experts expect trading conditions to improve over the course of 2024. In particular, the continued enhancement of new systems and processes by National Grid ESO are expected to improve access to revenues via the BM. Indeed, positive results from this new system are already starting to be seen, although not yet on a consistent basis. Longer-duration 2-hour batteries have continued to outperform shorter-duration BESS and the Company is very well placed to benefit from the expected increase in demand and supply on the power network, balancing challenges, widening wholesale market spreads, and greater BM volumes. Going forward, the key will be to continue with a strong focus on best-in-class equipment, highly skilled asset management and regular, active scrutiny of revenue optimisation performance.

## **DIVIDENDS**

The Company declared and paid dividends totalling 8 pence per Ordinary Share relating to the Period, meaning the Company has distributed 100% of the target distributions announced at IPO. Due to the prolonged and unexpectedly low levels of income generated over the year, these payments were made predominantly from recycled capital (VAT rebates) which the Board recognises is not what Shareholders expect over the long term. In addition, for reasons stated above, the Board in consultation with the Investment Adviser has deemed it prudent to postpone the first quarterly dividend relating to the current financial year. Future dividends will depend on the level of revenue generated by our Projects. Given the depressed but volatile nature of revenue currently generated by

projects, the Board will continue to monitor the performance of the portfolio closely over the rest of the Financial Year, with the aim of distributing available income to Shareholders.

## NAV PERFORMANCE

During the Period, Adjusted NAV per Ordinary Share decreased 4.5% from 120.84 pence per Ordinary Share to 115.40 pence per Ordinary Share, driven primarily by the lower revenue environment as referred to above. During the year the Investment Adviser became aware of an error in calculating the NAV for July 2023, which had also affected some previous NAVs. Although the effect was relatively small (a reduction of 2 pence per Ordinary Share over the Period), the Board and the Investment Adviser immediately took steps to establish how the error occurred, and what processes needed to be changed to minimise the risk of such an error reoccurring. These changes were implemented shortly after the error was discovered.

## SHARE PRICE PERFORMANCE

The Company's Share price has been negatively affected by a range of factors, reducing from 111.75p to 72.5p over the Period. Rising interest rates and a reduction in risk appetite by investors during the Period had a material effect on the wider UK investment company sector (across multiple asset classes). In relation to the BESS sector particularly, the difference of appetite between the private and public markets is especially disappointing, with examples of private BESS asset transactions during the Period at levels equivalent to the Company's own valuations. The sale of the Company's own Rye Common project in September at a 1.5% premium to carrying value was one such example, and a testament to this misalignment. Since the end of the Period, the share price has come under further pressure as investors have reacted to continued deterioration of revenues (as reported by third party analysts) over the winter, coupled with uncertainty over the Company's ability to service its debt covenants. In relation to the latter point, the recent announcement of the debt refinancing may restore confidence (see below). As far as recovery of BESS revenues is concerned, the Investment Adviser's Report summarises some of the reasons behind the low revenues and also explains why there is cause for optimism over 2024 and beyond.

The level of discount to NAV that the Shares are currently trading at is unacceptable to the Board and the measures detailed above are intended as a first step to address these issues.

## POST-PERIOD END EVENTS: DEBT REFINANCING AND T-1 CAPACITY MARKET

On 21 February 2024, the Company completed the amendment and restatement of its existing debt facilities with NatWest plc ("**NatWest**") and Coöperatieve Rabobank U.A ("**Rabobank**"). The changes include an increase in tenor, lower margins and a re-sizing of debt covenant ratios to ensure ongoing headroom in the current revenue environment. Further details are set out in the Investment Adviser's Report. As mentioned above, the proceeds of any near-term asset sales would, at least partly, be applied to reducing gearing levels, which would further reduce ongoing debt service obligations. In addition, the Company enjoyed success with six projects bidding successfully for T-1 CM contracts on 20 February 2024. This raises the amount of contracted revenue for the 12 months from 1 October 2024 to £3.2 million, or £8k/MW/yr. Further details are set out in the Investment Adviser's Report.

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

The Company's ESG strategy, which was strengthened this year, powers us towards a sustainable future through battery energy storage infrastructure that supports the UK's net zero ambition, while bolstering energy security and promoting affordability.

As noted above, the Company added 555 MWh / 277.5 MW of operational BESS to the grid during the Financial Year. This has the capacity to power around 833,000 UK homes for two hours. Our batteries stored 30,938 MWh of renewable energy and avoided an estimated 15,415 tonnes of CO<sub>2</sub>e emissions from entering the atmosphere.

With the expansion of the Company's portfolio, there comes a responsibility to develop infrastructure that is truly sustainable in every sense by considering wider environmental and social, aspects throughout the asset lifecycle.

The Company considers the local environmental and social context in which it operates and strives to make a positive impact on the communities and environment around its sites. In 2022/23, the Company put plans in place to deliver a biodiversity net gain ("**BNG**") of 15% across all operational sites as well as launched five community funds with a combined value of £35,000 per year, while creating skilled jobs at the heart of the energy transition.

The Company also launched its Supplier Code of Conduct ("**the Supplier Code**") to strengthen sustainability in its supply chain, with 68% of key Tier 1 suppliers signing the Supplier Code during the Period. The Company increased collaboration with suppliers and industry associations on key issues such as human rights and circularity.

As we make progress on our ESG ambitions, it's important that we enhance our disclosures to support transparency. The Company has published its inaugural integrated Taskforce on Climate-Related Financial Disclosures ("**TCFD**") and Taskforce on Nature-Related Financial Disclosures ("**TNFD**") report. It has also submitted its first voluntary United Nations Principles for Responsible Investment ("**UN PRI**") report, ahead of publishing its first Transparency Report in the 2024 reporting cycle.

## OUTLOOK

The success of the build-out of the portfolio during the Period has been tempered by low recent revenues. The Board and its advisers are working hard to find solutions to the challenges we currently face, with our key objectives for the coming year being to finish construction of the outstanding projects, implement the initiatives detailed above to address the discount to the NAV, and maximise income. In doing so, we will continue to prove the value of BESS not only as an asset class, but also as an attractive income generating investment opportunity over the medium to long term.

Shareholders will have many questions which we will be happy to answer at the AGM to be held in April. I look forward to meeting as many of you as possible there. In the meantime, if you have any questions, please do not hesitate to contact me through our brokers Berenberg and Stifel.

**Norman Crighton**  
Chair

## Investment Adviser's Report

Harmony Energy Advisors Limited ("HEAL" or "the **Investment Adviser**"), hereby delivers its second annual Investment Adviser's Report in relation to the Company.

### HIGHLIGHTS

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**555 MWh / 277.5 MW** energised during the Period, taking the portfolio to **70% operational**

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Acquired **363.8 MWh / 181.9 MW** pipeline projects

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**Divested the Rye Common** shovel-ready project at a **1.5% premium to carrying value**

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**Diversified supplier base** through contracting with Envision and bp

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Current portfolio size: **790.8 MWh / 395.4 MW**

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**Eight** BESS projects

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**15,415 tonnes of CO<sub>2</sub>e emissions avoided** (estimated)

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### INTRODUCTION

The Period saw significant delivery and achievement of the Company's goals and other targets set out at IPO, particularly in relation to delivery of projects through construction and commencing operations. The benefits of 2-hour duration have been evident as the portfolio has performed well relative to the wider GB BESS fleet. However, these achievements have been overshadowed by a lower-than-expected revenue landscape during the Period. This has subsequently been exacerbated by a material further deterioration in the three months post-Period end as the expected uplift over winter failed to materialise. The primary cause for this weak performance is the continued drop in wholesale gas price, narrowing the daily spread potential for BESS trading revenues. In addition, a change to ancillary service auction parameters by National Grid ESO put further pressure on pricing, whilst the much-publicised new BM software has not yet delivered in line with expectations.

The recently announced debt re-financing, reflecting the move from a company developing assets to a lower risk operating one, has also addressed near-term risks around debt service in the event that the recent low revenue environment continues. In addition, the Board has instructed the Investment Adviser to explore potential asset sales in order to reduce gearing levels which would better position the Company for long-term stability and growth. Once any asset sale process is concluded, the Company will also consider (and, if applicable, disclose details of) further initiatives to provide value to Shareholders, such as share buybacks. The Company remains confident that the revenue environment will return to more positive levels for BESS. The T-1 auction result on 20th February is a positive start, providing additional contracted income for six of the Company's projects.

### PORTFOLIO UPDATE

The completion of construction and energisation of five BESS projects during the Period means that the Company's operating portfolio has jumped from zero at the start of the Period to 555 MWh / 277.5 MW by the end of the Period. This represents 70% of the Company's portfolio (by MWh), 12.2% of the operational GB market share, and places the Company as the second largest operating BESS owner in GB (by MWh).

This represents phenomenal growth from a standing start and has been underpinned by strong project management, with a number of projects delivered ahead of schedule. Where projects have been subject to minor delays, this has been largely due to grid connection constraints, and the company has worked hard with DNOs and suppliers to ensure that delays have been less significant than those experienced by many other GB BESS owners. A report by Modo Energy in January 2024 noted that 60% of BESS projects were delayed by more than nine months. Viewed in this context, the Company's delivery track record is very strong with only the Rusholme project suffering significant delays, representing 8.8% of the portfolio (by MWh).

As at the date of publication of this report, a further three projects (235.8 MWh / 117.9 MW) remain either "under construction" or "cold commissioned". The aforementioned delays to the Rusholme project (70 MWh / 35 MW) have been caused by the DNO's inability to connect the project in line with originally planned timelines. The project has been "cold-commissioned", meaning all batteries are on-site and have been tested to the extent possible. The root cause of this delay has now been successfully resolved, with the DNO having re-mobilised on site. The project is expected to energise in late Q2 2024.

The other two projects still "under construction" are Wormald Green (66 MWh / 33 MW) and Hawthorn Pit (99.8 MWh / 49.9 MW). These projects were acquired by the Company in December 2022, along with a third project, Rye Common. Post-acquisition, the Investment Adviser moved quickly to finalise key commercial contracts in relation to Wormald Green and Hawthorn Pit in February 2023. This speed of contracting was made possible thanks to the Investment Adviser proactively undertaking a comprehensive tender process in advance of acquisition. The aim was to diversify the Company's supplier base, encourage competitive tension for future tenders, and minimise the amount of time between acquisition and the start of construction.

As a result of this process, the Company procured (via relevant project SPV's) the engagement of Envision International Trading Limited and Envision Energy International UK Limited (together "**Envision**") to supply and install its ENS-L7300-3300 BESS in relation to the Wormald Green and Hawthorn Pit projects. Envision Energy International UK Limited is also contracted under long term maintenance and services agreements in relation to these two projects.

Key factors which influenced the Company's choice included Envision's track record in the renewables sector, specifically its independent battery cell manufacturing capabilities; its commitment around BESS delivery dates (in line with the Company's project energisation timetables); and its strong ESG policies and initiatives.

In relation to these two projects, the Company also appointed Keltbray Energy Limited as balance-of-plant contractor, and bp as the revenue optimiser. The latter was appointed in September 2023 following an extensive tender process involving fifteen potential suppliers. The relevant projects will be optimised utilising software developed by Open Energi (a company acquired by bp in 2021).

Similar to Rusholme, both projects have taken delivery of battery cell modules and are expected to become operational in Q2 2024. Along with the energisation of Rusholme, this will make the Company's portfolio of eight

BESS projects 100% operational (790.8 MWh / 395.4 MW).

## DISPOSAL OF RYE COMMON

The third acquisition in December 2022 alongside Hawthorn Pit and Wormald Green was the Rye Common project (198 MWh / 99 MW). Similar to Wormald Green and Hawthorn Pit, this project was acquired "shovel ready", before relevant construction contracts were in place. Given the challenging capital raising environment which remained following the Government's 'mini-budget' in September 2022, it was not possible for the Company to raise the additional equity required to construct this project. Alternative funding options were considered including potential vendor financing and other deferred capex structures, however it was ultimately determined by the Board that a sale of the project should also be explored.

The sale process took place during summer 2023 and attracted multiple bidders at attractive prices demonstrating the continued high level of interest for BESS projects and the quality of Harmony Energy Limited's pipeline. In aggregate, the proceeds of the sale (together with recycled cash previously allocated to this project) represented a 1.5% premium to its carrying value as at 30 April 2023 (as set out in the Company's interim results).

The successful sale of the project at this value demonstrated the appetite for such projects from private investors whilst also validating the Company's carrying values for projects.

## PIPELINE

The need for substantial amounts of energy storage on the GB network is widely understood. The ROFR ("**Right of First Refusal**") enables the Company to have an exclusive right of first refusal over Harmony Energy Limited's substantial and well-developed pipeline of projects. The Company has, as at the date of publication of this report, so far exercised this right in relation to 494.4 MW, leaving at least 505.6 MW still to be acquired (subject to financing).

## DEBT FACILITIES INCREASED AND DRAWN

On 10 February 2023, the Company successfully negotiated its debt facilities with NatWest and Rabobank. This increased the Company's available debt facilities to a total of £130 million comprising a term loan of £110 million and a revolving credit facility ("**RCF**") of £20 million.

These debt facilities provided the Company with funding certainty to complete construction of the Bumpers, Wormald Green and Hawthorn Pit projects.

During the Period £95 million was drawn across the two facilities with the remaining £35 million drawn as at the end of December 2023 (post-Period) in order to fund construction milestones.

## HEDGING

At the beginning of the Period, the Company had an interest rate swap (the "**Swap**") in place in relation to its initial debt facility of £60 million. The interest rate swap fixed the SONIA element of interest payments on this facility at a rate of 2.478% per annum. Multiple rises in Bank of England base rates since the Swap was contracted increased its value significantly. In connection with the extension of the debt facility (described above), the Company chose to break this swap in July 2023, crystallising the mark to market value at the time of £6.1 million. An interest rate cap of 5.25% was put in place in relation to the variable SONIA element of the increased facility, at a cost of £2.8 million. This interest rate cap was valued at £1.1 million as at 31 October 2023.

Post Period, the Company restructured its debt facilities as described below. The Company broke its interest rate cap at this point (receiving a payment of £0.5 million) and replaced it with an interest rate swap for the SONIA element of this loan. The new interest rate swap fixes the SONIA element of the loan at a rate of 4.101% per annum.

## DEBT RESTRUCTURING POST-PERIOD END

On 21 February 2024, the Company successfully negotiated an amendment and restatement of its debt facilities with NatWest and Rabobank. The revised structure recognises that the Company's portfolio is evolving from a construction portfolio into an operating portfolio. The term loan and RCF have been consolidated into a single long-term facility with the following key terms:

- Facility size of £130 million (already fully drawn);
- an extension of the legal maturity date from June 2027 to February 2031;
- a reduction in margin to 275 bps over SONIA for the first two years, rising over time to a maximum of 350 bps in the final year; and
- a re-sizing of market standard debt covenant ratios against conservative revenue forecasts to ensure ongoing headroom in the current revenue environment.

The structure allows for voluntary prepayments during the term (subject to a fee) and for cash sweeps in favour of the lenders in the event of material revenue outperformance above pre-agreed thresholds, enabling an acceleration of de-gearing in a cost-efficient manner whilst also reserving operational free cash flow for shareholder distributions.

When coupled with the new interest rate swap referred to above, the aggregate cost of debt equates to 6.85% for the first two years.

## MARKET COMMENTARY

### OVERVIEW

In October 2021, the UK Government set a commitment for all electricity generation to be decarbonised by 2035, subject to security of supply. To meet this target, the UK must replace fossil fuel-based electricity generation with low carbon power from renewable sources such as wind and solar. This ambition was reinforced by the UK

government in a recent pledge at COP 28, together with other countries, to triple global renewable generation capacity to 11 TW by 2030.

Largely as a result of this policy, traditional UK baseload power capacity is forecast to decrease due to challenging economics and the mandated closure of coal fired power generation whilst the installed capacity of intermittent renewables (i.e. wind and solar plant) is forecast to increase from 40 GW in 2023 to 135 GW in 2060.

This growth in renewables necessitates an increase in flexible capacity such as BESS with installed capacity expected to increase from 3.6 GW at the end of 2023 to at least 18 GW by 2060. It should be noted that 3.6 GW is 16% below National Grid's assumed operating capacity for their Winter Outlook 2023/24, showing that the amount of installed capacity is lagging behind current National Grid requirements.

Alongside this supply-side shift to intermittent renewables supported by Flexibility, are significant changes in the expected demand profile. Electrification of heat and transport is expected to increase total demand by 90% by 2060, with peak demand forecast to increase by 48%. This is a reversal of recent trends in which electricity demand has fallen as a result of improvements in energy efficiency, the cost-of-living crisis and low global output since Covid-19.

This backdrop of increasing peak demand, coupled with greater penetration of intermittent renewables, remains central to the business case for BESS. Baseload power prices will decrease as more power is generated from renewables. However, the average spread between peak and off-peak pricing (the "**Wholesale Price Spread**") is forecast to increase from around £75 / MWh in 2023 to £120 / MWh in 2030 and £136 / MWh in 2060. This is driven by off-peak prices being increasingly set close to zero when renewable output is high, whilst peak prices will continue to be set by reference to commodity prices (gas and carbon) which are both forecast to increase with carbon increasing significantly throughout the rest of this decade.

Wholesale Price Spreads therefore mirror this projected increase in commodity prices, and this is the fundamental macro driver behind the BESS business case which continues to underpin the market valuation of projects.

### **GB BESS REVENUES DURING 2023 AND RELATIVE COMPANY PERFORMANCE**

BESS revenue in the Period was 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. BESS revenues in November and December 2023 and January 2024 (i.e. post-Period end), deteriorated further, contrary to expectations.

There are multiple drivers of this reduction in revenue. The first is the saturation of ancillary services which began towards the end of 2022 and is now a well-established position. This saturation was largely expected and already built into forward-looking revenue projections. The second key driver, and the most relevant to the Company, is a reduction in wholesale price volatility. 2021 and 2022 had both seen high wholesale price volatility - in 2021 this was driven by rising fuel prices and low wind output leading to frequent scarcity events which drove high peak power prices. In 2022 wind output increased, reducing scarcity events. However, a marked surge in commodity prices drove power prices higher. This combination of high renewable output and high commodity prices contributed to high spreads and created the ideal conditions for BESS revenue performance.

Wholesale Price Spreads in 2023 have narrowed due to the reduction in commodity prices (particularly gas and carbon prices), GB importing a large volume of energy from Europe (via interconnectors) and a material reduction in consumer energy demand.

Chart 5 shows average BESS revenues generated during the Period (as estimated by Modo Energy). The Company's portfolio performance (also as estimated by Modo Energy, for like-for-like comparison) is overlaid to demonstrate the Company's market-leading position against its 2-hour peers. More generally, and notwithstanding the saturation of ancillary services and lower average fleet performance relative to 2022, 2-hour duration BESS continued to outperform compared to 1-hour duration projects.

The revenue mix over the period varied between 1-hour and 2-hour duration BESS. The key revenues have been categorised below as follows:

#### **Capacity Market**

The CM consists of two annual auctions which are designed to provide security of supply for the following year (based on the T-1 auction) and for four years into the future (based on the T-4 auction). Contracted assets are paid an availability fee to guarantee availability to respond to stress events, which are periods of very high demand. This revenue stream can be combined with all other revenues and is a secure, passive part of the revenue stack. Details of the Company's CM contracts can be found in a later section of this report.

#### **Ancillary Services**

The current suite of National Grid ESO ancillary services is referred to collectively in this section as Dynamic Frequency Response ("**DFR**"). These services are divided into "high" and "low" frequency services as described below. Auctions take place on a daily basis for delivery the following day and prospective service providers bid by communicating to National Grid ESO how much capacity they are able to provide, and at what price.

#### **Dynamic Frequency Response High ("**DFR(H)**"):**

A high-frequency event is caused by energy supply exceeding demand, which causes the frequency to be higher than the target set by National Grid ESO. DFR(H) services are used to correct high frequency events by either increasing demand or decreasing supply in order to restore balance. BESS responds to this type of event by consuming power, i.e. charging the battery.

A key strategy for the Company's assets over the reporting Period was to bid into this type of service for part of the day and then sell any power consumed on a scheduled, bilateral basis via the wholesale market during the evening peak period. The Company's assets do not pay for the power consumed whilst providing DFR(H) services, and therefore a greater spread could be achieved. This explains why a large proportion of the Company's revenues during the Period came via Dynamic Regulation - a sub-category of DFR (see section titled *Dynamic Frequency Response Low ("**DFR(L)**")*).

This strategy saw increased competition from both 2-hour and shorter duration BESS during 2023, despite being less effective for shorter duration BESS due to the limited volume which can be stored. The introduction of the Enduring Auction Capability in November 2023 places further pricing pressure on this strategy (see further details below). The Investment Adviser monitors such trends closely and has regular strategy meetings with Tesla's Autobidder operators (engaged as revenue optimisers in relation to the Company's current operating projects). The Autobidder software makes a judgement as to whether the DFR(H) clearing price(s) represent better value than charging via the wholesale markets. Until we witness a widening of peak/off-peak spreads in the wholesale markets, it is anticipated that the Company will continue to participate in DFR(H) for as long as such strategy continues to demonstrate best value. Indeed, recent analysis by Modo Energy which tracked and compared two BESS assets (one 1-hour duration and one 2-hour duration) operating the same DFR(H) & wholesale strategy concluded that the 2-hour duration BESS earned more £/MW whilst also cycling less.

#### **Dynamic Frequency Response Low ("DFR(L)"):**

A low frequency event is caused by energy demand exceeding supply, causing the frequency to be lower than the target. DFR(L) services are used to correct low frequency events by either increasing supply, or reducing demand. BESS responds to this type of event by generating power, i.e. discharging the battery.

As with DFR(H) services, the Company's assets would not be paid for the energy throughput (in this case, the energy discharged from the battery) whilst participating in this service. For DFR(L), this creates an opportunity cost - the BESS could reasonably achieve better value discharging via the wholesale markets - so DFR(L) services have traditionally cleared at higher pricing levels than DFR(H) services as bidders demand higher compensation for this opportunity cost.

#### **Wholesale Trading**

Wholesale trading refers to the buying and selling of power via the day ahead or intra-day power exchanges. In its basic form it refers to buying cheap power when demand is low (and increasingly when renewable energy generation is high), storing this power for a period of time and then selling when the price increases, profiting from the "spread" between peak and off-peak prices. The average spread in the wholesale markets is expected to increase as the growing proportion of renewable generation increasingly displaces use of older, thermal plant during periods of off-peak pricing (when it is not economic for the latter to operate), leaving peak prices linked to commodity prices such as gas and carbon.

Wholesale markets are active until one-hour prior to delivery of power (known as "**Gate Closure**").

#### **Balancing Mechanism**

The BM is National Grid ESO's last minute tool to balance supply and demand in real time. This is active from Gate Closure and spreads are typically significantly wider than seen in wholesale markets. To date BESS revenues from BM have been limited by National Grid ESO's systems and ability to dispatch a large number of small assets. In response to this issue, National Grid ESO recently released the Open Balancing Platform, covered in more detail below.

#### **NATIONAL GRID'S OPEN BALANCING PLATFORM ("OBP")**

The BM is National Grid ESO's primary tool for balancing supply and demand, as well as managing system needs in real time. BESS can be "dispatched" to either charge or discharge in short bursts (currently up to 15 minutes) multiple times per day. Historically, BESS has represented a small proportion of overall dispatch volumes within the BM (1.7% of total dispatches in 2023), as the National Grid ESO control room operators have favoured more established technologies which dispatch in large volumes, rather than cheaper and more efficient BESS capacity.

Being subject to strong incentives to keep balancing costs down, National Grid ESO is committed to increasing BESS dispatch rates and volumes in the BM. National Grid ESO has published its "Balancing Programme" incorporating multiple enhancements to be implemented on a staggered basis between December 2023 and Summer 2025 with the express purpose of enabling greater use of storage assets in the BM. The plan includes new control room processes and training, software updates, regulatory changes and launch of new services. The three key enhancements which are of particular interest are:

- 1) The OBP & "Bulk Dispatch" functionality: launched in early January 2024 (after an initial launch in December 2023 was aborted after a few days due to a technical fault), this new software enables National Grid ESO controllers to dispatch multiple assets simultaneously (up to maximum of 300 instructions per hour), rather than via individual instructions (average rate of 6.5 dispatches per hour);
- 2) Fast Dispatch: expected in Spring 2024, will enhance Bulk Dispatch so that National Grid ESO can call upon BESS in the BM to respond to time-sensitive frequency-correcting actions (e.g. in response to a sudden large outage, such as an interconnector trip); and
- 3) New Storage Parameters: a change designed to give National Grid ESO controllers confidence and capability to dispatch BESS for longer than the current 15-minute limitation. This was due to be available from Winter 2024, but National Grid ESO recently announced an ambition to bring this initiative forward to 1 March 2024.

It remains too soon to forecast the net impact of the planned enhancements, and a frustrating level of inconsistency by National Grid ESO has been observed whilst OBP "teething" issues are ironed out. However, there are positive early signs, as since OBP's first launch in early December, the total BESS volume dispatched via the BM has increased. According to Modo Energy, 1.1 GWh of BESS volume was dispatched per day in January 2024, an 80% increase on November 2023.

It is already well documented that 2-hour duration BESS can outperform shorter duration BESS in the BM, as more MWh creates opportunity for more transaction volume. Modo Energy predicts that the OBP and subsequent enhancements will enable 2-hour duration BESS to enjoy an uplift in the present value of lifetime revenues by 13-20% (central/high scenarios).

#### **ENDURING AUCTION CAPABILITY**

Post-Period end, on 2 November 2023, National Grid upgraded its auction methodology and bidding structure in relation to ancillary services. This is known as the Enduring Auction Capability ("**EAC**"). The changes implemented



increased the linkage in pricing between services, and also enabled participants to bid negative pricing to win volume (i.e. pay to provide the service). This has increased transparency for participants and reduced the cost for National Grid ESO to procure ancillary services. It follows, however, that service pricing has been driven down, reducing revenues captured by BESS.

In relation to the Company, the EAC has impacted the DFR(H) & wholesale trading strategy commonly used during the Period (as described above). This is because the clearing price for the DFR(H) service can now be negative, meaning that the Company has to pay to charge (narrowing the potential spread achievable). As described above, a 2-hour duration BESS continues to outperform its shorter-duration peers when utilising this strategy, and the Investment Adviser is keeping the situation under close review.

## OUTLOOK

As has been previously explained, short-duration BESS is more reliant upon ancillary service revenues than 2-hour duration BESS. The continuing saturation of the ancillary services market along with EAC is, certainly, a material factor in the recent revenue performance of the whole GB fleet. However, the Investment Adviser anticipates that 2-hour duration BESS will accelerate away from ancillary services with a proportionate increase in revenue generated via the wholesale markets and BM. This should result in increasing divergence of asset performance, depending upon duration. Despite the technical teething issues in National Grid ESO's implementation of OBP, the recent increase in dispatch rates witnessed in the BM is an encouraging sign of this. More widely, other factors such as the expected increase in energy demand and the continued strong build out of intermittent renewable generation plant, coupled with the relative shortfall of GB BESS capacity, should support Wholesale Price Spread growth, reversing recent trends.

Given the Company's position as the largest portfolio of exclusively 2-hour duration BESS in GB, we are well positioned to continue to outperform the wider market and maximise emerging revenue opportunities.

## FINANCIAL PERFORMANCE

The NAV per share as at 31 October 2023 was £115.40 pence per Ordinary Share, a reduction of -4.5% from the Adjusted NAV per share of 120.84 pence per Ordinary Share as at 31 October 2022 as restated. The NAV total return over the Period was 1.2%. As at 31 October 2023 NAV total return since IPO was 24.9%.

Material factors which influenced the NAV over the period included:

- a) lower near-term revenue assumptions based on the latest revenue forecasts published by independent providers. The revision to the forecasts is reflective of the market environment during 2023 which saw wholesale energy prices fall significantly from their historic highs in 2022;
- b) positive revaluations of the Company's BESS projects as they progressed through construction and commenced operations;
- c) dividend payments amounting to 8 pence per Ordinary Share relating to the Period, which were uncovered as the portfolio became increasingly operational;
- d) a correction relating to an error in valuation methodology in relation to short-term cash flows which led to a misstatement being introduced at the 31 October 2022 financial year end. It has been ascertained that this resulted in an overstatement of the NAV at 31 October 2022 of £4,653,154.

Whilst lower revenue forecasts have had a material impact on NAV, discount rates applied to the Company's "operating" and "under construction" assets remained stable throughout the Period. The relative stability experienced for BESS was supported by the Company's sale of the Rye Common asset at a 1.5% premium to carrying value in September 2023, and corroborated by the Company's Independent Valuer with reference to other market transactions. The current discount rates used in modelling are: 10.5% for construction projects; and 10.0% for operational projects. These discount rates are applied to all revenues, with no differentiation for long-term contracted income generated through CM contracts.

As part of the biannual valuation exercise carried out by the Independent Valuer as at 31 October 2023, the Company introduced a new discount rate of 10.25% which has since been applied to newly energised projects. This withholds an element of construction risk whilst the projects prove an absence of technical teething issues.

The chart in this report shows the modelled long-term revenue and cost assumptions used for calculating the NAV of the portfolio as at 31 October 2023. These figures are presented in real terms with a base date of 1st January 2023. CM revenues are included, and the years are calendar years.

## REVENUE GROWTH DRIVEN BY INCREASE IN OPERATIONAL PROJECTS

During the Period, the portfolio generated total revenue of £6.7 million (equating to £67k / MW/Yr). £5.7 million of this came from the Pillswood project which became operational in November 2022. The Broad ditch and Farnham projects began contributing from May and June 2023 respectively, however they contributed less to portfolio revenue due to their relatively small scale. Bumpers and Little Raith were energised in October 2023, representing 115% increase to the portfolio's operating capacity. This increase in capacity had limited impact on revenue for the Period but positions the Company well going into the next financial year. It should be noted that the Company's projects did not benefit from CM contracts until October 2023. See section below for additional information.

Wholesale trading and BM accounted for 42% of portfolio revenue during the reporting Period. These revenue streams are expected to make up a more significant proportion of the Company's revenue in the future as the ancillary services markets become increasingly saturated.

Of the relevant ancillary services (Dynamic Containment, Dynamic Moderation and Dynamic Regulation), Dynamic Regulation was the most important ancillary service for the portfolio over the Period. This service favours longer-duration batteries and is increasingly being used in conjunction with wholesale trading: by providing the service, the BESS effectively "buys" power which can then be sold via the wholesale markets, achieving a greater spread than would be available by buying the same power wholesale. This strategy has attracted increasing competition from other BESS as other ancillary services become less attractive.

In May and June 2023, the Company decided to focus the Pillswood 2 project's revenue strategy on the BM and actively chose not to participate in ancillary service markets. This strategy proved more profitable than a wholesale market only, or wholesale plus Dynamic Containment strategy (strategies being pursued by the majority of owners in GB at the time) whilst also using fewer cycles. Spreads were significantly higher than could have been achieved in the wholesale market however volume was relatively lower, limiting the amount of revenue which could be achieved.

Whilst only operating in the BM, Pillswood 2 cycled 0.6 times per day on average. National Grid ESO is actively working on improving the use of batteries in the BM, and released the first iteration of their OBP in December 2023 (see the market commentary section for more information). The Investment Adviser continues to believe that the BM will be an important market for BESS in GB with increased volume as a result of OBP being an important first step.

## CAPACITY MARKET

### T-1 Capacity Market Contract Status

In early February 2023, the Company successfully bid for T-1 CM contracts in respect of the Pillswood, Broadditch, Farnham and Rusholme projects. The clearing price for these contracts was £60 per kW/year, the second highest clearing price ever achieved and significantly higher than the T-1 revenue assumptions in the Investment Adviser's revenue projections at the time of the award. Service delivery under these contracts commenced in October 2023, providing contracted revenues to the relevant projects until 30 November 2024.

The Company's Little Raith and Bumpers projects did not participate in the T-1 auction in February 2023. This is because bidders face financial penalties in the event that the relevant projects do not pass various construction milestones in line with timetable. Rather than expose the Company to such risks, the Investment Adviser instead focused on completing construction of both projects ahead of expectations, which then allowed such projects to confidently procure T-1 CM contracts via the secondary market from third parties who are not able to fulfil their delivery obligations. The Company successfully procured additional T-1 CM Contracts to the aggregate value of £935k which is accretive to modelled cashflows over the October 2023 to September 2024 delivery year. Of this aggregate amount, £403k was secured during the Period, with the balance secured post-Period end.

### T-4 Capacity Market Contract Status

In relation to T-4 CM contracts, the Company's Bumpers, Wormald Green and Hawthorn Pit projects successfully obtained 15-year duration, index linked T-4 CM contracts at the T-4 auction held on 21 February 2023. The auction cleared at a record high of £63 per kW/year, more than double the previous record high price. This revenue stream will commence from October 2026.

The above results mean that all projects in the Company's portfolio benefit from 15-year index linked T-4 contracts commencing from October 2024, October 2025 or October 2026 (depending on the project).

### Recent T-1 Auction Results

On 20 February 2024, six of the Company's projects successfully bid for T-1 CM contracts for delivery from 1 October 2024 through to end September 2025. The auction cleared at £35.79/kw/yr, lower than last year but higher than the Company's expectations. Once De-Rating (see glossary) is taken into account, this increases the Company's contracted revenue for the 12-month period ending 30 September 2024 to £3.2 million (circa £8k/MW), of which £1.7 million has not yet been factored into the Company's modelled cash flows. The Company's Broadditch and Farnham projects did not participate in this T-1 CM auction because their respective T-4 CM contracts will commence from 1 October 2024 (for delivery over 15 years) and it is not permitted for a project to hold two CM contracts in relation to the same delivery period.

### Overview

The table in this report shows the current contracted income (on a De-Rated basis) to be received from the CM (as at the date of publication of this report). Combined with pre-existing CM contracts, the total contracted annualised income for the portfolio is modelled to be £12k/MW until 30 September 2024, and £8k/MW for the subsequent 12 months ending 30 September 2025. Income in 2025/2026 will be increased by additional revenue from T-1 CM contracts awarded to relevant projects which do not hold T-4 CM contracts for these delivery years.

## TECHNICAL PERFORMANCE

During the Period, the Company's portfolio performed in line with expectations from a technical perspective. Across the portfolio, availability averaged 97.8% (including grid outages), with round-trip efficiency of 88.2%. Both of these measures exceed those guaranteed by the manufacturer.

"Cycles" are a common measure of battery utilisation, with one cycle being equal to the battery discharging its full energy capacity (so one cycle for a 50 MW, 2-hour battery is equal to 100 MWh).

The portfolio has averaged 0.94 cycles per day, which is lower than assumed in the Company's business plan. Lower cycling leads to lower degradation, which in turn increases the operational life of the project.

## CONSOLIDATED OPERATIONAL PERFORMANCE AND PERFORMANCE MEASURES

As an Investment Company, HEIT does not consolidate for accounting purposes, however the Investment Adviser believes that presenting financial performance on an unaudited consolidated basis is helpful in relation to the calculation of dividend cover and to demonstrate the flow of revenue from project operations through to distributions to investors.

Dividend cover in the reporting Period is calculated as follows:

**TABLE 1: UNAUDITED CONSOLIDATED FY 2023 FINANCIALS**

| Unaudited Consolidated Financials | FY2023<br>(£) |
|-----------------------------------|---------------|
| Revenue                           | 6,698,540     |
| SPV Costs                         | (2,477,800)   |
| HEIT/Holdco Costs                 | (2,009,133)   |

|                                             |                    |
|---------------------------------------------|--------------------|
| Management Fee                              | (2,163,222)        |
| Interest Costs                              | (3,248,173)        |
| Tax                                         | (26,624)           |
| <b>Operational Free Cash Flow</b>           | <b>(3,226,411)</b> |
| Dividend Paid <i>in relation to FY 2023</i> | 18,170,264         |
| Weighted Average Operational MW             | 100.5              |
| Revenue (£/MW/Yr)                           | 66,631             |

Based on the above, and despite having distributable reserves available, the Company's dividend was not covered by operational free cash flow during the Period. The lack of dividend cover is predominantly due to the small number of operating projects over the period (weighted average operational MW: 101). This was compounded by lower than anticipated revenues (£67k/MW/Yr).

Operational free cash flow is expected to increase in future years as the portfolio becomes fully operational. The Company intends to distribute operational free cash flow as dividends subject to working capital requirements. The Investment Adviser and the Board intend to review the Company's dividend policy in the coming months.

The accounting policies used to determine the figures in Table 1 are consistent with those described in Note 4 to the financial statements.

**TABLE 2: KPIs AND PERFORMANCE MEASURES**

|                                                                                | As at<br>31 October 2023 | As at<br>31 October<br>2022<br>(Restated) |
|--------------------------------------------------------------------------------|--------------------------|-------------------------------------------|
| <b>Key Performance Indicators</b>                                              |                          |                                           |
| NAV (£)                                                                        | 262,108,092              | 253,156,980                               |
| NAV per Ordinary Share (p/share)                                               | 115.40                   | 120.55                                    |
| Dividends paid (£)                                                             | 15,727,698               | 2,100,000                                 |
| Dividends paid per Ordinary Share (p/share)                                    | 7p                       | 1p                                        |
| <b>Alternative Performance Measures</b>                                        |                          |                                           |
| Adjusted NAV (£)                                                               | 262,108,092              | 267,699,152                               |
| Adjusted NAV Total Return (%)                                                  | 1.2%                     | 23.4%                                     |
| Revenues from Operations (£)                                                   | 6,698,540                | n/a                                       |
| Dividends per Ordinary Share declared and paid in relation to period (p/share) | 8p                       | 2p                                        |
| <b>Other Performance Measures</b>                                              |                          |                                           |
| Operational Capacity (period end) (MWh/MW)                                     | 555 MWh / 277.5 MW       | n/a                                       |
| Weighted Average Operational Capacity (MW)                                     | 100.5                    | n/a                                       |
| Weighted Average Revenue per MW Operational (£/MW/Year)                        | 66,631                   | n/a                                       |

## Alternative Investment Fund Manager's Report

### BACKGROUND

The Alternative Investment Fund Manager's Directive (the "AIFMD") came into force on 22 July 2013. The objective of the AIFMD was to ensure a common regulatory regime for funds marketed in or into the EU which are not regulated under the Undertakings for the Collective Investment in Transferable Securities regime. This was primarily for investors' protection and also to enable European regulators to obtain adequate information in relation to funds being marketed in or into the EU to assist their monitoring and control of systemic risk issues.

JTC Global AIFM Solutions Limited (the "AIFM") is a non-EU Alternative Investment Fund Manager (a "Non-EU AIFM"), the Company is a non-EU Alternative Investment Fund (a "Non-EU AIF") and the Company is currently marketed only in the UK. Although the AIFM is a non-EU AIFM, so the depositary rules in Article 21 of the AIFMD do not apply, the transparency requirements of Articles 22 (Annual report) and 23 (Disclosure to investors) of the AIFMD do apply to the AIFM and therefore to the Company. In compliance with those articles, the following information is provided to the Company's Shareholders by the AIFM.

#### 1. Material Changes in the Disclosures to Investors

During the Period, there were no material changes to the information required to be made available to investors under Article 23 of the AIFMD before they invest in the Company from the information set out in the Company's prospectus dated 15 October, 2021, save as disclosed below and in certain sections of the annual financial report, those being the Integrated TCFD and the TNFD report.

#### 2. Risks and Risk Management Policy

The current principal risks facing the Company and the main features of the risk management systems employed by AIFM and the Company to manage those risks are set out in the section headed "Principal Risks and Uncertainties", the Directors' Report, the Report of the Audit and Risk Committee and in note 17 to the financial statements.

#### 3. Leverage and borrowing

The Company is entitled to employ leverage in accordance with its investment policy as set out in the Company's prospectus. As at the balance sheet date, the Company (via its subsidiary, HEIT Holdings Ltd) had £130 million of senior debt facilities, consisting of a £20 million unhedged revolving credit facility and a £110 million term loan facility, hedged by way of an interest rate cap (on the SONIA element) of 5.25%. As at the balance sheet date, the Company had drawn £95 million, including £10.6 million under the revolving credit facility. Post-balance sheet date, the Company drew the remaining balance of the £130 million and, on 21 February 2024, the Company's facilities were amended and restated. See Investment Adviser's Report for more details. There were no changes in the Company's borrowing powers and policies.

#### 4. Environmental, Social, and Governance Issues

Because the AIFM is a non-EU AIFM and the Company is not marketed into the EEA, the AIFM is not required to comply with Regulation (EU) 2019/2099 on Sustainability-Related Disclosures in the Financial Services Sector (the

"SFDR"). However, details of the Company's and its advisers' ESG objectives and actions taken are reported on in the section of this annual financial report entitled "Environmental, Social, and Governance."

As a member of the JTC group of Companies, the AIFM's ultimate beneficial owner and controlling party is JTC Plc, a Jersey-incorporated company whose shares have been admitted to the Official List of the UK's Financial Conduct Authority ("FCA") and to trading on the London Stock Exchange's Main Market for Listed Securities (mnemonic JTC LN, LEI 213800DVUG4KLF2ASK33). In the conduct of its own affairs, the AIFM is committed to best practice in relation to ESG matters and has therefore adopted JTC Plc's ESG framework (the "**ESG Framework**") and a copy of the ESG Framework can be viewed online at [https:// www.jtcgroup.com/esg/](https://www.jtcgroup.com/esg/).

As at the date of this report, JTC Plc is a signatory of the U.N. PRI. The JTC group is also carbon neutral, works to support the achievement of various U.N. Sustainable Development Goals and reports under TCFD and the SASB framework.

The AIFM and Harmony Energy Advisors Limited as the Company's alternative investment fund manager and investment adviser respectively do consider ESG matters in their respective capacities, as explained in the Company's prospectus dated 15 October, 2021, a copy of which can be found at Harmony Energy Income Trust PLC | JTC ([jtcgroup.com](http://jtcgroup.com)).

Since the publication of those documents, the AIFM, HEAL and the Company have continued to enhance their collective approach to ESG matters and detailed reporting on (a) enhancements made to each party's policies, procedures and operational practices and (b) our collective future intentions and aspirations, which is included in the TCFD report, the TNFD report, and the Section 172 Statement.

The AIFM also has a comprehensive risk matrix (the "**Matrix**"), which is used to identify, monitor and manage material risks to which the Company is exposed, including ESG and sustainability risks, the latter being an environmental, social, or governance event or condition that, if it occurred, could cause an actual or a potential material negative impact on the value of an investment. We also consider sustainability factors, those being environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

The AIFM is also cognisant of the announcement published by H.M. Treasury in the UK of its intention to make mandatory by 2025 disclosures aligned with the recommendations of the Task Force on Climate-Related Disclosures, with a significant proportion of disclosures mandatory by 2023. The AIFM also notes the roadmap and interim report of the UK's Joint Government-Regulator TCFD published by H.M. Treasury on 9 November 2020. The AIFM continues to monitor developments and intends to comply with the UK's regime to the extent either mandatory or desirable as a matter of best practice.

## **5. Remuneration of the AIFM's Directors and Employees**

During the Period, no separate remuneration was paid by the AIFM to two of its executive directors, Graham Taylor and Kobus Cronje, because they were both employees of the JTC group of companies, of which the AIFM forms part. The third executive director, Matthew Tostevin, is paid a fixed fee of £10,000 for acting as a director. Mr Tostevin is paid additional remuneration on a time spent basis for services rendered to the AIFM and its clients. During the year under review, the AIFM paid £10,000 in fixed fees and £39,637.50 in variable remuneration to Mr Tostevin. The AIFM does not pay any performance-related remuneration. Other than the directors, the AIFM has no employees. The Company has no agreement to pay any carried interest to the AIFM.

## **6. Remuneration of the AIFM Payable by the Company**

The AIFM was during the Period paid a fee of 0.03% per annum of the equity capital raised by the Company, subject to a minimum of £30,000 per annum, such fee being payable quarterly in arrears. Subsequent secondary issues of shares of the Company in the primary market are supported on a time spent basis, subject to a cap of £10,000 per each such issue. Other significant non-routine work may be agreed between the AIFM and the Company from time to time and charged for on a time spent basis. The total fees paid to the AIFM during the Period were £67,434.00.

**JTC Global AIFM Solutions Limited**  
Alternative Investment Fund Manager  
27 February 2024

## **STRATEGIC REPORT**

### **INVESTMENT OBJECTIVE**

The Company's investment objective is to provide an attractive and sustainable level of income returns, with the potential for capital growth, by investing in commercial scale storage and renewable energy generation projects, with an initial focus on a diversified portfolio of BESS located in Great Britain ("**Projects**").

### **INVESTMENT POLICY**

The Company seeks to achieve its investment objective through investment in energy storage and complementary renewable energy generation assets, with an initial focus on commercial scale BESS located in diverse locations across Great Britain.

For the purposes of this policy, unless the context otherwise requires, words and expressions defined in the Company's Prospectus shall have the same meanings where used in this policy.

The Company may invest in operational, under construction or "shovel ready" projects, and may also provide development finance to pipeline projects.

### **PROJECTS WHICH ARE "SHOVEL READY" WILL HAVE IN PLACE:**

- completed lease, lease option or agreement for lease in relation to the land upon which that project is situated;
- planning permission enabling the construction of a suitable project on that land (subject to any amendments to reflect final technical specifications);

- an industry standard grid connection offer from a DNO or Transmission System Operator ("TSO"); and
- a BESS supply & installation contract with material terms agreed with a reputable counterparty.

**PROJECTS WHICH ARE "UNDER CONSTRUCTION" WILL IN ADDITION, HAVE IN PLACE:**

- an agreed lease on satisfactory terms;
- an accepted industry standard grid connection offer from a DNO or TSO, and having made at least one milestone payment; and
- a fully executed BESS supply & installation contract with a reputable counterparty.

**PROJECTS WHICH ARE "OPERATIONAL" WILL, IN ADDITION, HAVE IN PLACE:**

- completed lease on satisfactory terms in relation to the land upon which that project is situated;
- an executed grid connection agreement with a DNO; and
- satisfactory completion of relevant commissioning tests.

**TARGET REVENUE SOURCES**

It is intended that, once operational, the main revenue streams from the Company's portfolio of Projects will be from the following sources:

- **Ancillary services** - Projects may generate revenues from short-term contracts procured via regular competitive auctions through which the Company and/or its subsidiaries will provide, on a firm basis, dynamic or non-dynamic response services to National Grid ESO as part of its efforts to cater for changes in network system frequency, balancing the grid and avoiding power outages;
- **Asset optimisation** - Projects may generate revenues from importing and exporting power in the wholesale market and the National Grid ESO-administered Balancing Mechanism ("BM"); and
- **Capacity Markets** - projects may generate revenues by access to the benefit of contracts, or through entering into new contracts, to provide back-up capacity power to National Grid ESO as the Electricity Market Reform delivery body via Capacity Market contracts of varying terms between 1 year and 15 years in duration.

The contractual arrangements which the Company will put in place in respect of its portfolio of projects are expected to benefit from diversification across a number of different income streams with various contract lengths, counterparties and return profiles.

These revenue sources will inevitably evolve as the UK energy and energy storage markets and National Grid ESO policy and practice develop, and as such the Company intends to adapt its contractual arrangements to procure what it considers to be the most advantageous revenue streams as the market develops.

**BESS TECHNOLOGY**

The Company intends to invest primarily in BESS Projects using 2-hour lithium-ion battery technology, as such technology is believed by the Investment Adviser to offer the most efficient operation and return profile and has a number of advantages over shorter duration batteries. However, the Company remains agnostic as to which energy storage and generation technology is used by the projects in which it invests and will monitor projects and may invest in projects with alternative technologies (including different duration batteries and combinations and co-location of such technologies), where they meet the Company's investment objective and policy.

Each BESS project will contain a battery system with a number of battery modules in each stack, each of which is independent and can be replaced separately. This reduces the impact of failure of one or more battery modules and therefore offers protection against the potential risk of the operation of a project being interrupted.

**INVESTMENT IN AND OWNERSHIP OF PROJECTS**

The Company intends to invest with a view to holding assets until the end of their useful life. However, projects may also be disposed of, or otherwise realised, where the Investment Adviser recommends that such realisation is in the interests of the Company. Such circumstances may include (without limitation) disposals for the purposes of realising or preserving value, or of realising cash resources for reinvestment or otherwise.

The Company may also consider investing in the re-powering of projects by replacing degraded cells in order to extend Project cash flows, or increasing the capacity of Projects where the grid connection is under-utilised.

The Company will typically achieve legal and operational control of Projects through direct or indirect stakes of 100% in the relevant Project Companies, and may use a range of investment instruments in the pursuit of its investment objective, including but not limited to debt and equity instruments.

In certain circumstances, the Company may participate in joint ventures or co-investments, including (without limitation) with other investors or entities with whom members of the Harmony Group have developed assets, where this approach enables the Company, within its investment policy, to gain exposure to assets which the Company would not otherwise be able to acquire on a wholly-owned basis. In such circumstances the Company will seek to secure its shareholder rights through contractual and other arrangements to, inter alia, ensure that the projects are operated and managed in a manner that is consistent with the Company's investment policy.

**DEVELOPMENT FINANCE**

The Company may provide loan finance to Pipeline Projects prior to an anticipated acquisition ("**Pre-Acquisition Development Loans**"). Such finance may be for the commissioning of design works, pre-construction studies (including but not limited to geotechnical studies), acquisition of equipment or other development costs for the furtherance of the relevant project, provided that no more than 10% of Gross Asset Value (calculated at the time that finance is provided based on the latest available valuations) may be exposed in aggregate to such loans.

The Company may also provide funding via loans or equity contributions to Project Companies which are owned by the Company ("**Post-Acquisition Development Finance**") for the purposes of:

- (a) evaluating and/or executing asset management initiatives which the Investment Adviser reasonably believes to be value accretive and supportive of the Company's overall target return, such as extension or amendment of leases and/or renegotiation of consents or grid connection agreements to increase import/ export capacity; or
- (b) developing complementary renewable generation infrastructure to be owned and operated by the relevant Project Company. This funding may be used for any reasonable development expenses such as preliminary design work, planning applications and/or commercial studies,

provided in all cases that no more than 10% of Gross Asset Value (calculated at the time that finance is provided based on the latest available valuations) may be exposed in aggregate to such finance.

The total aggregate exposure of the Company to Pre-Acquisition Development Loans and Post-Acquisition Development Finance will not exceed 15% of Gross Asset Value (calculated at the time that finance is provided based on the latest available valuations).

#### **COMPLEMENTARY RENEWABLE GENERATION ASSETS**

Whilst the Company's primary focus under its investment policy is to invest in BESS and other energy storage projects, the Company may also invest in renewable generation assets where it would be attractive to do so. This may include projects with co-located BESS and solar PV generation sharing the same grid connection or stand-alone solar PV projects, where these would be complementary to the Company's other investments and support the Company's overall target return, subject to the investment restrictions below.

#### **INVESTMENT RESTRICTIONS**

The Company aims to achieve diversification principally through investing in a range of Projects benefitting from different income streams with different counterparties and located in different regions of Great Britain. The Company will observe the following investment restrictions when making investments:

- following the acquisition of the Seed Projects by the Company, the acquisition price of any single Project shall not exceed 20% of the Company's Gross Asset Value measured at the time of investment;
- following the acquisition of the Seed Projects, the Company will seek to ensure that it has holding interests in not less than five separate Projects at any one time;
- no more than 35% of Gross Asset Value, calculated immediately following each investment, will be invested in Projects which are not BESS Projects;
- no more than 25% of Gross Asset Value, calculated immediately following each investment, will be invested in assets in relation to which the Company does not hold a direct or indirect stake of 100%;
- no more than 10%, in aggregate, of the value of the total assets of the Company at Initial Admission will be invested in UK listed closed-ended investment funds;
- the Company will not conduct any trading activity which is significant in the context of the Group as a whole; and
- no investments will be made in fossil fuel assets, including fossil fuel-powered generators.

Compliance with the above restrictions will be measured at the time of investment and non-compliance resulting from changes in the price or value of assets following investment will not be considered as a breach of the investment restrictions.

Individual projects will be held within special purpose vehicles into which the Company will invest through equity and/or debt instruments. It is intended that each Project Company will hold one project but a Project Company may own more than one project. The investment restrictions will be applied on a look-through basis.

#### **BORROWING POLICY**

The Company may raise debt and may consider having leverage (at the Company level and/or the Project Company level) provided that it has sufficient assets and to the extent funding is available on acceptable terms. In addition, it may from time to time use borrowing for short-term liquidity purposes which could be achieved through a loan facility or other types of collateralised borrowing instruments. The Company is permitted to provide security to lenders in order to borrow money, which may be by way of mortgages, charges or other security interests or by way of outright transfer of title to the Company's assets. The Directors will restrict borrowing to an amount not exceeding 49% of the Company's Net Asset Value at the time of drawdown.

In circumstances where these aforementioned limits are exceeded as a result of gearing of one or more Project Companies in which the Company has a non-controlling interest, the borrowing restrictions will not be deemed to be breached. However, in such circumstances, the matter will be brought to the attention of the Board who will determine the appropriate course of action.

#### **CURRENCY, HEDGING POLICY AND DERIVATIVES**

Efficient portfolio management techniques may be employed by the Company, and this may include (as relevant) currency hedging, interest rate hedging and power price hedging. Derivatives may be used for currency, interest rate and power price hedging purposes as set out below and for efficient portfolio management. However, the Directors do not anticipate that extensive use of derivatives will be necessary.

#### **CASH MANAGEMENT**

The Company may hold cash on deposit and may invest in cash equivalent investments, which may include short-term investments in money market type funds ("**Cash and Cash Equivalents**").

There is no restriction on the amount of Cash and Cash Equivalents that the Company may hold and there may be times when it is appropriate for the Company to have a significant Cash and Cash Equivalents position. For the avoidance of doubt, the restrictions set out above in relation to investing in UK listed closed-ended investment companies do not apply to money market type funds.

## **CHANGES TO AND COMPLIANCE WITH THE INVESTMENT POLICY**

Any material change to the Company's investment policy set out above will require the approval of Shareholders by way of an ordinary resolution at a general meeting.

In the event of a breach of the investment guidelines and the investment restrictions set out above, the AIFM shall inform the Board upon becoming aware of the same and if the Board considers the breach to be material, notification will be made to a Regulatory Information Service.

For the purposes of the investment policy, "Gross Asset Value" means the aggregate of (i) the fair value of the Company's underlying investments (whether or not subsidiaries), valued on an unlevered basis, (ii) the Company's proportionate share of the cash balances and cash equivalents of assets and non-subsidiary companies in which the Company holds an interest and (iii) other relevant assets and liabilities of the Company (including cash) valued at fair value (other than third party borrowings) to the extent not included in (i) or (ii) above.

## **BUSINESS MODEL**

The Company expects to invest predominantly in projects at the "shovel ready" stage since these are likely to provide the most attractive returns. The Company may also invest in projects at the "operational" and "under construction" stage where such projects are available for acquisition in line with the Company's investment policy.

The Company seeks to enhance further the efficacy of its portfolio by targeting 2 hour-duration storage technologies.

The Company has the unfettered ability to purchase qualifying assets from any seller. The Investment Adviser is experienced in sourcing and advising on BESS transactions and continues to evaluate potential opportunities on the open market. However, at least over the near-term, it is anticipated that the Company will continue to take advantage of its exclusive arrangements described below.

The Company benefits from exclusive access to a well-developed pipeline of BESS projects at various stages of development in Great Britain. Each project within this pipeline is controlled by Harmony Energy Limited either solely or in conjunction with its joint venture partner, Ritchie-Bland Energy (number 2) Ltd ("**RBE**") (the "**Sellers**"). This exclusivity is in the form of:

- a) ROFR to acquire up to 1 GW of BESS projects from the Sellers. The Company has, as at the date of publication of this report, exercised this right in relation to 494.4 MW, leaving at least 505.6 MW still capable of acquisition under the ROFR; and
- b) a right of first offer ("**ROFO**") in relation to (i) BESS projects once the 1 GW ROFR threshold has been reached; (ii) BESS projects co-located with solar photovoltaics ("**PV**"); or (iii) stand-alone solar PV projects.

The processes under which these rights are exercised are set out in a pipeline agreement dated 14 October 2021 and entered into between the Company and the Sellers (the "**Pipeline Agreement**"). The Sellers have an obligation to keep the Company informed as to the development progress of potential projects. This provides the Company with an element of transparency which, in turn, allows the Company a reasonable level of certainty around funding timetable and portfolio growth planning.

The terms of the Pipeline Agreement provide that the Sellers shall be prohibited from selling any qualifying projects to any other party during the term of the agreement without first offering them to the Company. Upon any projects becoming "shovel ready", the Sellers shall give notice of such status to the Company. The Company will then be entitled to either (i) if the ROFR applies, acquire the relevant project pursuant to the terms of the pro forma share purchase agreement (and subject to a valuation calculated using a minimum discount rate); or (ii) if the ROFO applies, make an offer to the Sellers pursuant to the Pro Forma Share Purchase Agreement.

All acquisitions are subject to satisfactory external due diligence, independent valuation and Board approval.

The Company will continue to target BESS projects with 2-hour duration capability. As demonstrated in the "Market Commentary" section, the Investment Adviser believes that 2-hour duration BESS offers potential for revenue outperformance relative to a shorter-duration BESS across a range of market conditions.

## **DIVIDEND POLICY**

The Board has responded to lower than anticipated revenue performance since the end of the Period by initiating a review of the Company's dividend policy, including the announced postponement of the Company's first quarterly dividend of 2 pence per Ordinary Share. The review will form part of the Investment Adviser's consideration of the most effective methods of delivering value to Shareholders over the short term, as described earlier in this report. However, the Company maintains an ambition to distribute operational free cash flow subject to working capital requirements.

In the meantime, subject to this review, the Company's policy remains the targeting of an annual dividend yield of 8 pence per Ordinary Share, payable in quarterly instalments in March, June, September and December of each year. All dividends will be in the form of interim dividends. The Board reserves the right to retain within a revenue reserve a proportion of the Company's net income in any financial year, such reserve then being available at the Board's absolute discretion for subsequent distribution to Shareholders, subject to the requirements of any applicable regulations.

The dividend policy will be subject to Shareholder vote at the 2024 Annual General Meeting.

## **Principal Risks and Uncertainties**

The Board recognises the importance of effective risk management in enabling the Company to deliver its strategic objectives. The Investment Policy, as set out in the Prospectus and as amended from time to time, details

the limits on risk that the Board will take.

## WHAT WE MONITOR

The Company's risk register was prepared based on the risks stated in the Prospectus, and is regularly reviewed by the Investment Adviser, the AIFM and the Board and updated to reflect any emerging risks or changes to the identified risks. Day-to-day ownership of risk sits with named individuals at the Investment Adviser, who monitor and assess both current and emerging risks. Risks are categorised and assessed to determine likelihood and impact. Ratings are applied to the risks before any mitigating action and again following consideration of the adequacy of mitigating actions. Mitigating actions are summarised in the risk register and are subject to review and monitoring.

## HOW WE MONITOR RISK

The Board retains ultimate responsibility for the Company's activities and Board meetings are held at least four times a year, at which the risk register of the Company is reviewed, and updates are reported by the AIFM on any changes to the risks or their ratings.

The Audit and Risk Committee meets at least three times each year. The Committee reviews the adequacy and effectiveness of the Company's internal controls and risk management systems and every six months it carries out a reassessment of the principal risks facing the Company.

The AIFM provides risk management services to the Company, including implementation of risk management policies to identify, measure, manage and monitor the risks that the Company is or might be exposed to and ensuring that the Company's risk management policy and implementation comply with applicable regulations. Representatives of the AIFM meet with Investment Adviser representatives at least quarterly to review the risk register and discuss any changes proposed. The proposed updates to the Company's risk register are further reviewed and approved by the AIFM's internal Risk Committee in advance of circulation to the Board.

The identified risk owners within the Investment Adviser are responsible for formal quarterly reporting of current and emerging risks and issues to the Investment Adviser's leadership. A formal quarterly review of the risk register is carried out by the Investment Adviser and any recommendations for updates are made to the AIFM. Any major emerging risks and issues are escalated outside of the quarterly review framework.

## TABLE OF PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers the following to be the principal risks and uncertainties facing the Company as at the date of approval of the accounts. The risks are presented in order of significance based on net residual risk, following mitigations.

Due to the nature of Company's activities, climate and the natural environment are central to its key strategic, investment, and operational decisions. During the Period, the Company conducted a screening assessment with specialist third-party consultants to identify material climate and nature-related financial risks, opportunities, dependencies and impacts. HEAL has worked closely with the AIFM to integrate the risks identified as part of the recent screening into the risk register. Following careful consideration of these risks by the Board, none of the risks identified was considered to be sufficiently material to qualify as a principal risk.

## EXISTING RISKS

| RISK DESCRIPTION                                                                                                                                                                                                                                                                                                                                               | POSSIBLE CONSEQUENCES                                                                                                                                                                   | MITIGATING ACTIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>MERCHANT NATURE OF BESS REVENUES</b>                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Lower-than-expected market price of ancillary services, revenues generated from wholesale trading and/or the Balancing Mechanism. National Grid ESO is responsible for the structure and operation of both the Balancing Mechanism and the ancillary service markets, and wholesale trading prices are influenced by factors outside of the Company's control. | <ul style="list-style-type: none"><li>Reduced revenue;</li><li>Reduced NAV;</li><li>Inability to declare future dividends;</li><li>Inability to pay debts as they become due.</li></ul> | <ul style="list-style-type: none"><li>Subscriptions to Modo, Aurora and Baringa for long-term revenue forecasts, regular market intelligence and understanding of macro-drivers.</li><li>Engagement with industry stakeholders and policymakers, including National Grid ESO.</li><li>Scrutiny of revenue optimiser performance to maintain high standards.</li><li>Close monitoring of cash flow levels and scenario modelling to ensure mitigating actions can be implemented in a timely manner to improve cash position if necessary.</li></ul> |
| <b>HEIT'S NAV AT END OF 2024</b>                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| HEIT's NAV is lower than £250m by the end of the 2024.                                                                                                                                                                                                                                                                                                         | <ul style="list-style-type: none"><li>Such event will trigger a continuation vote, which could result in Company executing a managed wind down.</li></ul>                               | <ul style="list-style-type: none"><li>All parties will continue to monitor the situation at each Board meeting.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>PROJECT SUPPLIER RISK</b>                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Adverse changes to estimated costs and delivery timetable from key suppliers; battery installation delays.                                                                                                                                                                                                                                                     | <ul style="list-style-type: none"><li>Increased costs.</li><li>Delay to income generation.</li><li>Reduced NAV.</li></ul>                                                               | <ul style="list-style-type: none"><li>Tender processes for future contracts are conducted with suppliers with a strong track record.</li><li>EPC (or BESS supply) contracts contain robust obligations regarding price and delivery timetables.</li></ul>                                                                                                                                                                                                                                                                                           |



- Contingency is included in project budgets for unexpected price increases.

## GENERAL RISKS AFFECTING THE SHARES

The value of shares in the secondary market may fluctuate due to factors outside the control of the Company. It may be difficult for Shareholders to realise their shares at close to NAV and there may not be a liquid market. The market price of the shares may not reflect their underlying net asset value.

Share buy backs may not adequately influence the discount in the secondary market.

- Inability to raise additional equity capital.
- Inability to purchase additional projects.

- The Joint Brokers and Investment Adviser monitor the share price daily in the secondary market and report to the Board regularly and where necessary. The Board actively considers a range of options to address the discount. These include, inter-alia: share buy backs, asset sales, gearing reduction, increased marketing.
- The Board will discuss share buybacks at every quarterly Board meeting whilst shares are trading at a significant discount to NAV.
- Stifel has been appointed as joint broker and there is an increased focus on marketing HEIT to new investors. The Board, the Joint Brokers and the Investment Adviser monitor the market on a regular basis with a view to taking actions if and when it is necessary.

## VALUATION RISK

HEIT invests in unquoted assets and valuations will involve the Investment Adviser, AIFM and Board.

The Company is relying on the judgement of the Investment Adviser.

Errors in valuations could lead to shareholder complaints or suits for losses and regulatory censure.

- The possible sale of assets for less than market value
- Errors in NAV calculations and announcements

- The Investment Adviser has subscribed to services from Modo, Aurora and Baringa to provide support for quarterly NAV valuations.
- Semi-annual valuations are provided by an Independent Valuer. The Independent Valuer regularly updates its valuation of each Project based upon, among other things, recent market comparables and the relative liquidity of the assets. The sale of Rye Common in September, 2023 validated the 30 April 2023 project valuations.
- The NAV methodology was reviewed and enhanced to ensure it remains fit for purpose.

## DELAYS TO GRID CONNECTION TIMETABLES

Delays to grid connection timetables in relation to pipeline projects and portfolio projects which are not yet connected.

- The increased pressure on DNOs and TSOs to facilitate new grid connections raises the risk of DNOs failing to meet pre-agreed timetables.
- New pipeline projects may be allocated long-dated connection times, thus delaying the overall deployment of low carbon generation and progress towards net zero.

- The Investment Adviser engages in a continuous dialogue with its relationship contacts at relevant DNOs and works with them to proactively manage the connection timetable, identifying and managing potential connection issues as early as possible and thus minimising the risk of delays.
- The Investment Adviser also seeks to make prompt payment to the DNOs of relevant milestone amounts which enables the DNOs to order requisite equipment within appropriate timescales. In relation to future Pipeline Projects, the Investment Adviser also engages with DNOs early in the development process (prior to acquisition by the Company) to filter out those projects most at risk of delay caused by requisite network infrastructure upgrade works.

## EMERGING RISKS

### RISK DESCRIPTION

### POSSIBLE CONSEQUENCES

### MITIGATING ACTIONS

## PERFORMANCE OF REVENUE OPTIMISERS

Revenue optimisers may not perform as effectively as expected, leading to reduced revenue receipts.

In a challenging revenue environment, revenue optimisation capability becomes increasingly important.

- Reduced revenue;
- Inability to declare future dividends;
- Reduced cash availability.

- Each revenue optimiser regularly reports to the Investment Adviser who uses its skills and experience to input into strategy evolution on a regular basis.

- Regular comparison with publicly reported BESS industry performance data.
  - The revenue optimisers are engaged on rolling short-term contracts so can be replaced in the event of prolonged poor performance.
  - Each revenue optimiser's fee is structured as a percentage of project revenues so there is an incentive to outperform.
-

## RELATED-PARTY TRANSACTIONS

During the Period, the Company acquired three projects from Harmony Energy Limited at fair value, in accordance with the Company's Related Party policy. The Independent Valuer provided a fair value opinion on all purchases at the time of acquisition and the consideration paid was considered by the Independent Valuer to be within a reasonable market range on both a discount rate and multiple basis.

Detailed information on related-party transactions can be found in this report.

## Viability and Going Concern Statement

### GOING CONCERN

As at 31 October 2023, the Company and its subsidiaries had net current assets and net cash balances of £26 million along with undrawn debt facilities of £35 million. The combination of net current assets and undrawn debt facility was sufficient to meet commitments made under construction contracts signed by subsidiaries.

The Company, through its wholly owned subsidiary HEIT Holdings Ltd, had access to a £130 million (including a £20 million RCF) debt facility with NatWest (in syndication with Rabobank). £84.4 million had been drawn under the main facility, with £10.6 million drawn under the RCF. Both facilities were fully drawn in December 2023.

These facilities were successfully amended and restated in February 2024, providing the Company with reduced interest costs and significant head-room in relation to debt covenant tests which, if failed, would lead to a lock-up of cash or an event of default.

The Company is a guarantor to its wholly owned subsidiary HEIT Holdings Ltd in respect of the debt facilities and also provides parent company guarantees to subsidiaries in relation to certain construction and/or battery supply contracts. As at the date of publication the aggregate outstanding value of such guarantees is £29 million.

The Company's prospectus at the time of IPO commits the Directors to put forward a continuation vote at the subsequent annual general meeting of the Company if NAV of the Company is below £250 million at the end of 2024. This possibility, and the probability of such a vote passing have been taken into account by the Directors in making their assessment. Whilst it is acknowledged that there is a risk of this threshold being triggered during the Going Concern Period (as defined below), any such vote would take place outside of the Going Concern Period.

The Directors are aware and understand that the Company's revenues can be volatile and therefore have reviewed the results of financial models analysing the expected position of the Company under a prudent scenario as well as a reasonable worst-case scenario. Both scenarios take into account the availability of cash reserves and receivables whilst assuming that all projects are brought into operations during the Going Concern Period.

The prudent scenario assumes revenue performance of the Company's operating projects remains broadly in line with recent operating performance

In addition, the Directors have considered a reasonable worst-case scenario which assumes non-contracted revenue earned by underlying investee companies is c.35% lower than in the prudent scenario.

Under both scenarios the financial model shows that sufficient cash is expected to be available to meet the Company's obligations and commitments (including but not limited to construction contracts, working capital requirements and debt service). The Directors have considered the outcomes of a reverse stress test whereby non-contracted revenue falls below the level assumed in the reasonable worst-case scenario. The Directors have concluded that the revenue levels generated by this reverse stress test are not plausible.

The Directors note that the Company is not reliant on revenues from operating projects in order to meet its commitments in relation to the funding of project construction costs. Having considered the results of the modelled scenarios, the Directors have a reasonable expectation that the Company is able to manage cash flow and meet its working capital and debt service commitments via a combination of operating revenues and/or contracted revenue products over the Going Concern Period, and are working with the Investment Adviser to assess the optimal combination of such options so as to ensure that the Company can maximise returns to Shareholders whilst managing solvency risk. The Company also has the option of selling an asset(s) if it wishes to do so. The Directors are confident that key risks have been considered in this assessment.

The Directors have adopted the going concern basis in preparing the Annual Report and Financial Statements and have concluded that the Company's available funding and expected income are sufficient for the Company to continue its operations for at least 12 months from the date of signing these financial statements (the **"Going Concern Period"**).

### VIABILITY STATEMENT

The Directors have considered the period to February 2026 for the purposes of assessing the Company's viability (the **"Viability Period"**). The same prudent and reasonable worst case scenarios described above have been reviewed over the Viability Period.

The Directors have considered the potential impact of a continuation vote which could take place during the Viability Period as described above. The Directors understand that the impact of such a vote may result in a managed sell-down of assets, but that this sell-down of assets could take a significant period of time to complete in order to maximise shareholder value. The Directors have received no indication that such a continuation vote, if necessary, would not pass.

The Directors have further analysed projected headroom in relation to debt covenants which could impact the Company's viability if triggered.

Having considered the above, the Directors have concluded that there are no significant doubts that the Company remains viable under a reasonable worst-case scenario.

## Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

As a company traded on the London Stock Exchange, the Company is subject to the FCA's Listing Rules and Disclosure Guidance and Transparency Rules, as well as to all applicable laws and regulations in England and Wales where it is registered.

The Annual Report and Financial Statements have been prepared in accordance with UK adopted international accounting standards. Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for the Period. In preparing these Financial Statements, the Directors should:

- select suitable accounting policies in accordance with IAS 8 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation;
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable, and provide the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

## WEBSITE PUBLICATION

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO DISCLOSURE GUIDANCE AND TRANSPARENCY RULES 4

The Directors confirm to the best of their knowledge that:

- the financial statements have been prepared in accordance with UK adopted international accounting standards and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- the annual report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

## DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Signed by order of the Board,

**Norman Crighton**

Chair

27 February 2024

## Financial Statements

### Statement of Comprehensive Income

|                                                                     |       |                   |                    | 1 November<br>2022 to<br>31 October<br>2023<br>Total<br>£ |                  |                   | 1 October<br>2021 to<br>31 October<br>2022<br>Total<br>(Restated*)<br>£ |
|---------------------------------------------------------------------|-------|-------------------|--------------------|-----------------------------------------------------------|------------------|-------------------|-------------------------------------------------------------------------|
|                                                                     | Notes | Revenue<br>£      | Capital<br>£       |                                                           | Revenue<br>£     | Capital<br>£      |                                                                         |
| <b>Income</b>                                                       |       |                   |                    |                                                           |                  |                   |                                                                         |
| Net (loss)/gain on investment at fair value through profit and loss | 10    | -                 | (7,161,610)        | (7,161,610)                                               | -                | 48,426,937        | 48,426,937                                                              |
| Service fee income                                                  | 6     | 1,837,458         | -                  | 1,837,458                                                 | 1,853,151        | -                 | 1,853,151                                                               |
| Investment income                                                   | 6     | 11,936,674        | -                  | 11,936,674                                                | 2,083,035        | -                 | 2,083,035                                                               |
|                                                                     |       | <b>13,774,132</b> | <b>(7,161,610)</b> | <b>6,612,522</b>                                          | <b>3,936,186</b> | <b>48,426,937</b> | <b>52,363,123</b>                                                       |

|                                                                                   |   |                   |                    |                  |                 |                   |                   |
|-----------------------------------------------------------------------------------|---|-------------------|--------------------|------------------|-----------------|-------------------|-------------------|
| <b>Expenses</b>                                                                   |   |                   |                    |                  |                 |                   |                   |
| Administrative and other expenses                                                 | 7 | (3,475,884)       | -                  | (3,475,884)      | (3,999,189)     | -                 | (3,999,189)       |
| <b>Profit/(loss) before taxation</b>                                              |   | <b>10,298,248</b> | <b>(7,161,610)</b> | <b>3,136,638</b> | <b>(63,003)</b> | <b>48,426,937</b> | <b>48,363,934</b> |
| Taxation                                                                          | 8 | -                 | -                  | -                | -               | -                 | -                 |
| <b>Profit/(loss) after tax and Total Comprehensive income for the year/Period</b> |   | <b>10,298,248</b> | <b>(7,161,610)</b> | <b>3,136,638</b> | <b>(63,003)</b> | <b>48,426,937</b> | <b>48,363,934</b> |
| Earnings per share (basic and diluted): Ordinary Share                            | 9 |                   |                    | 0.01             |                 |                   | 0.23              |

All Revenue and Capital items in the above statement are derived from continuing operations.

The Total column of this statement represents the Company's Statement of Comprehensive Income prepared in accordance with UK adopted international accounting standards ("IAS"). The return on ordinary activities after taxation is the total comprehensive income and therefore no additional statement of other comprehensive income is presented.

The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issue by the Association of Investment Companies ("AIC").

The notes form an integral part of these Financial Statements.

\* Refer to Note 2 Basis of preparation for disclosures on the restatement

## Statement of Financial Position

|                                                   | Note      | 31 October 2023<br>£ | 31 October 2022<br>(Restated*)<br>£ |
|---------------------------------------------------|-----------|----------------------|-------------------------------------|
| <b>Non-current assets</b>                         |           |                      |                                     |
| Investments held at fair value                    | 10        | 240,025,781          | 141,032,691                         |
|                                                   |           | <b>240,025,781</b>   | <b>141,032,691</b>                  |
| <b>Current assets</b>                             |           |                      |                                     |
| Trade and other receivables                       | 11        | 4,452,273            | 1,381,693                           |
| Loan to shareholder                               | 12        | -                    | 1,443,506                           |
| Cash and cash equivalents                         | 13        | 18,093,379           | 124,571,626                         |
|                                                   |           | <b>22,545,652</b>    | <b>127,396,825</b>                  |
| <b>Total assets</b>                               |           | <b>262,571,433</b>   | <b>268,429,516</b>                  |
| <b>Current liabilities</b>                        |           |                      |                                     |
| Trade and other payables                          | 14        | 463,341              | 730,364                             |
| Financial liability at fair value                 | 15        | -                    | 14,542,172                          |
|                                                   |           | <b>463,341</b>       | <b>15,272,536</b>                   |
| <b>Net current assets</b>                         |           | <b>22,082,311</b>    | <b>112,124,289</b>                  |
| <b>Total net assets</b>                           |           | <b>262,108,092</b>   | <b>253,156,980</b>                  |
| <b>Shareholders' equity</b>                       |           |                      |                                     |
| Share capital                                     | 19        | 2,271,283            | 2,100,000                           |
| Share premium                                     | 19        | 21,370,889           | -                                   |
| Capital reduction reserve                         | 19        | 194,094,197          | 202,693,046                         |
| Revenue reserve                                   | 20        | 3,106,396            | (63,003)                            |
| Capital reserve                                   | 20        | 41,265,327           | 48,426,937                          |
| <b>Total Shareholders' equity</b>                 |           | <b>262,108,092</b>   | <b>253,156,980</b>                  |
| <b>Net asset value per Ordinary share (pence)</b> | <b>21</b> | <b>115.4</b>         | <b>120.55</b>                       |

The Financial Statements of Harmony Energy Income Trust Plc (registered number 13656587) were approved by the Board of Directors and authorised for issue on 27 February 2024. They were signed on its behalf by:

**Norman Crighton**  
Chairman

27 February 2024

\* Refer to Note 2 Basis of preparation for disclosures on the restatement

## Statement of Changes in Equity

| Notes                                      | Ordinary<br>Share capital<br>£ | Share<br>premium:<br>Ordinary<br>Shares<br>£ | Capital<br>reduction<br>reserve<br>£ | Revenue<br>reserve<br>£ | Capital<br>reserve<br>£ | Total<br>Shareholders'<br>equity<br>£ |
|--------------------------------------------|--------------------------------|----------------------------------------------|--------------------------------------|-------------------------|-------------------------|---------------------------------------|
| <b>Balance at 1 October 2021</b>           | -                              | -                                            | -                                    | -                       | -                       | -                                     |
| Transactions with owners:                  |                                |                                              |                                      |                         |                         |                                       |
| Issue of share capital                     | 19                             | 2,100,000                                    | 207,900,000                          | -                       | -                       | 210,000,000                           |
| Equity issue costs                         | 19                             | -                                            | (3,106,954)                          | -                       | -                       | (3,106,954)                           |
| Transfer to capital reduction reserve      | 19                             | -                                            | (204,793,046)                        | 204,793,046             | -                       | -                                     |
| Dividends paid                             | 19                             | -                                            | -                                    | (2,100,000)             | -                       | (2,100,000)                           |
| Total comprehensive income for the Period: |                                |                                              |                                      |                         |                         |                                       |
| Profit/(loss) for the Period (Restated*)   |                                | -                                            | -                                    | (63,003)                | 48,426,937              | 48,363,934                            |

|                                               |                  |                      |                    |                   |                               |
|-----------------------------------------------|------------------|----------------------|--------------------|-------------------|-------------------------------|
| <b>Balance at 31 October 2022 (Restated*)</b> | <b>2,100,000</b> | <b>- 202,693,046</b> | <b>(63,003)</b>    | <b>48,426,937</b> | <b>253,156,980</b>            |
| Transactions with owners:                     |                  |                      |                    |                   |                               |
| Conversion of C shares to Ordinary Shares     | 19               | 171,283              | 21,370,889         | -                 | - 21,542,172                  |
| Dividends paid                                | 19               | -                    | (8,598,849)        | (7,128,849)       | - (15,727,698)                |
| Total comprehensive income for the year:      |                  |                      |                    |                   |                               |
| Profit/(loss) for the year                    |                  | -                    | -                  | 10,298,248        | (7,161,610) 3,136,638         |
| <b>Balance at 31 October 2023</b>             | <b>2,271,283</b> | <b>21,370,889</b>    | <b>194,094,197</b> | <b>3,106,396</b>  | <b>41,265,327 262,108,092</b> |

\* Refer to Note 2 Basis of preparation for disclosures on the restatement

## Statement of Cash Flows

|                                                                                 | Notes | 1 November 2022 to 31 October 2023<br>£ | 1 October 2021 to 31 October 2022<br>(Restated*)<br>£ |
|---------------------------------------------------------------------------------|-------|-----------------------------------------|-------------------------------------------------------|
| <b>Cash flows from operating activities</b>                                     |       |                                         |                                                       |
| Profit for the year/Period                                                      |       | 3,136,638                               | 48,363,934                                            |
| Adjustments for non-cash items:                                                 |       |                                         |                                                       |
| Net loss/(gain) on investment at fair value through profit and loss             | 10    | 7,161,610                               | (48,426,937)                                          |
| Investment income                                                               | 6     | (11,582,996)                            | (2,083,035)                                           |
| Service fee income                                                              | 6     | (1,837,458)                             | (1,853,151)                                           |
| <b>Operating cash flows before movements in working capital</b>                 |       | <b>(3,122,206)</b>                      | <b>(3,999,189)</b>                                    |
| Increase in trade and other receivables                                         |       | (1,233,122)                             | (1,381,693)                                           |
| (Decrease)/increase in trade and other payables                                 | 14    | (267,023)                               | 730,364                                               |
| <b>Net cash outflow from operating activities</b>                               |       | <b>(4,622,351)</b>                      | <b>(4,650,518)</b>                                    |
| <b>Cash flows used in investing activities</b>                                  |       |                                         |                                                       |
| Loan to shareholder discharged/(granted)                                        | 12    | 1,443,506                               | (1,443,506)                                           |
| Purchases of investments                                                        |       | (101,223,411)                           | (65,185,873)                                          |
| Proceeds from sale of investments                                               | 10    | 13,651,707                              | -                                                     |
| <b>Net cash outflow from investing activities</b>                               |       | <b>(86,128,198)</b>                     | <b>(66,629,379)</b>                                   |
| <b>Cash flows used in financing activities</b>                                  |       |                                         |                                                       |
| Proceeds from issue of Ordinary Shares                                          |       | -                                       | 186,516,305                                           |
| Proceeds from borrowings                                                        |       | -                                       | 14,542,172                                            |
| Share issue costs                                                               |       | -                                       | (3,106,954)                                           |
| Dividends paid                                                                  | 22    | (15,727,698)                            | (2,100,000)                                           |
| <b>Net cash (outflow)/inflow (used in)/from financing activities</b>            |       | <b>(15,727,698)</b>                     | <b>195,851,523</b>                                    |
| <b>Net (decrease)/increase in cash and cash equivalents for the year/Period</b> |       | <b>(106,478,247)</b>                    | <b>124,571,626</b>                                    |
| Cash and cash equivalents at the beginning of the year/Period                   |       | 124,571,626                             | -                                                     |
| <b>Cash and cash equivalents at the end of the year/Period</b>                  | 13    | <b>18,093,379</b>                       | <b>124,571,626</b>                                    |

\* Refer to Note 2 Basis of preparation for disclosures on the restatement

## Notes to the Financial Statements

### For the year from 1 November 2022 to 31 October 2023

#### 1. GENERAL INFORMATION

The Company was incorporated as a Public Company, limited by shares, in England and Wales on 1 October 2021 with registered number 13656587. The registered office of the Company is The Scalpel 18th Floor, 52 Lime Street, London, England EC3M 7AF. The Company's principal activity is to invest in commercial scale battery energy storage and renewable energy generation projects, with an initial focus on a portfolio of utility scale BESS, located in diverse locations across Great Britain.

#### REORGANISATION

The Company is able to raise debt finance at either the Company or Special Purpose Vehicle ("SPV") level. In order to facilitate this, HEIT Holdings Ltd was incorporated on 4 February 2022, with the Company being its sole shareholder.

Prior to the issue of debt by HEIT Holdings Ltd, it was necessary to carry out a reorganisation of the Company. This reorganisation occurred over two periods. On 9 March 2023 and 4 May 2023 respectively, the Directors of the Company resolved to approve:

- the proposed disposal by the Company of the entire issued share capital of all of its other subsidiaries to the HEIT Holdings Ltd in exchange for shares issued in HEIT Holdings Ltd equalling the fair value of the investment at the date of transfer;
- the proposed novation of the Company's obligations under all loan agreements with all its other subsidiaries to HEIT Holdings Ltd and the entering into of a new loan agreement with HEIT Holdings Ltd;
- the proposed novation of the Company's obligations under certain share purchase agreements to HEIT Holdings Ltd; and
- a loan agreement to be entered into between (1) the Company and (2) HEIT Holdings Ltd.

Further details on the reorganisation and transfer of investments to HEIT Holdings Ltd are disclosed on note 10.

#### 2. BASIS OF PREPARATION

The audited Annual Report and Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the UK ("IFRS") and in conformity with the requirements of the Act and also considers the Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies and Venture Capital Trusts", updated by the AIC in July 2022. The Financial Statements are prepared on a historical cost basis, except where balances are recognised at fair value. The principal accounting policies are set out in Note 4.

In terms of the AIC SORP, the Company presents a Statement of Comprehensive Income, which shows amounts split between balances which are revenue and capital in nature. The determination of the revenue or capital nature of a transaction is determined by giving consideration to the underlying elements of the transaction. Capital transactions are considered to be those arising as a result of the appreciation or depreciation in the value of assets due to the fair value movements on investments held at fair value through profit and loss as well as any gains or losses occurred on the sale of investments. Revenue transactions are all transactions, other than those which have been identified as capital in nature.

The Company is an investment entity in accordance with IFRS 10 'Consolidated Financial Statements' which holds all its subsidiaries at fair value and therefore only prepares separate accounts. The Financial Statements are also prepared on the assumption that approval as an investment trust will continue to be granted.

The Directors considered the impact of climate change on the investments included in Company's Financial Statements and have assessed that it does not materially impact the estimates and assumptions used in determining the fair value of the investments.

## **FUNCTIONAL AND PRESENTATION CURRENCY**

The currency of the primary economic environment in which the Company operates (the functional currency) is British Pounds Sterling which is also the presentation currency.

## **GOING CONCERN**

A fundamental principle of the preparation of financial statements in accordance with IFRS is the judgement that an entity will continue in existence as a going concern for a period of at least 12 months from signing of The Annual Report, which contemplates continuity of operations and the realisation of assets and settlement of liabilities occurring in the ordinary course of business.

In reaching its conclusion, the Board has considered the risks that could impact the Company's liquidity over the period from 28 February 2024 to 28 February 2025 (the "**Going Concern Period**"). Bearing in mind the nature of the Company's business and assets, the Directors consider the Company to have adequate resources to continue in operational existence.

The Investment Adviser and the Directors have assessed the cash flow forecasts and debt servicing commitments in light of recent trading performance. Through this scenario analysis the Board has determined that the Company has sufficient ability to generate cash to ensure that the Company can continue to operate as a going concern for at least 12 months from the signing of these Financial Statements (the "**Going Concern Period**").

As at 31 October 2023, the Company and its subsidiaries had net current assets and net cash balances of £26 million along with undrawn debt facilities of £35 million. The combination of net current assets and undrawn debt facility was sufficient to meet commitments made under construction contracts signed by subsidiaries.

The Company, through its wholly owned subsidiary HEIT Holdings Ltd, had access to a £130 million (including a £20 million RCF) debt facility with NatWest, in syndication with Rabobank. £84.4 million had been drawn under the main facility, with £10.6 million drawn under the RCF. Both facilities were fully drawn in December 2023.

These facilities were successfully amended and restated in February 2024, providing the Company with reduced interest costs and significant head-room in relation to debt covenant tests which, if failed, would lead to a lock-up of cash or an event of default.

The Company is a guarantor to its wholly owned subsidiary HEIT Holdings Ltd in respect of the debt facilities and also provides parent company guarantees to subsidiaries in relation to certain construction and/or battery supply contracts. As at the date of publication the aggregate outstanding value of such guarantees is £29 million.

The Company's prospectus at the time of IPO commits the Directors to put forward a continuation vote at the subsequent annual general meeting of the Company if NAV is below £250 million at the end of 2024. This possibility, and the probability of such a vote passing has been taken into account by the Directors in making their assessment. Whilst it is acknowledged that there is a risk of this threshold being triggered during the Going Concern Period, any such vote would take place outside of the Going Concern Period.

The Directors are aware and understand that the Company's revenues can be volatile and therefore have reviewed the results of financial models analysing the expected position of the Company under a prudent scenario as well as a reasonable worst-case scenario. Both scenarios take into account the availability of cash reserves and receivables whilst assuming that all projects are brought into operations during the Going Concern Period.

The prudent scenario assumes revenue performance of the Company's operating projects remains broadly in line with recent operating performance.

In addition, the Directors have considered a reasonable worst-case scenario which assumes non-contracted revenue earned by underlying investee companies is c.35% lower than in the prudent scenario.

Under both scenarios the financial model shows that sufficient cash is expected to be available to meet the Company's obligations and commitments (including but not limited to construction contracts, working capital requirements and debt service). The Directors have considered the outcomes of a reverse stress test whereby non-contracted revenue falls below the level assumed in the reasonable worst-case scenario. The Directors have concluded that the revenue levels generated by this reverse stress test are not plausible.

The Directors note that the Company is not reliant on revenues from operating projects in order to meet its commitments in relation to the funding of project construction costs. Having considered the results of the modelled scenarios, the Directors have a reasonable expectation that the Company is able to manage cash flow and meet

its working capital and debt service commitments via a combination of operating revenues and/or contracted revenue products over the Going Concern Period, and are working with the Investment Adviser to assess the optimal combination of such options so as to ensure that the Company can maximise returns to Shareholders whilst managing solvency risk. The Company also has the option of selling an asset(s) if it wishes to do so. The Directors are confident that key risks have been considered in this assessment.

The Directors have adopted the going concern basis in preparing the Annual Report and Financial Statements and have concluded that the Company's available funding and expected income are sufficient for the Company to continue its operations for at least 12 months from the date of signing these financial statements.

The Company has no direct exposure to either Ukraine or Russia or to Palestine and Israel and therefore does not consider either of these conflicts to have an impact on the going concern operations of the Company.

The Directors acknowledge their responsibilities in relation to the Financial Statements for the year ended 31 October 2023 and the preparation of the Financial Statements on a going concern basis remains appropriate. The Company expects to meet its obligations as and when they fall due for at least the next twelve months after the date of approval of the Financial Statements.

As such, the Directors have adopted the going concern basis in preparing the Annual Report and Financial Statements.

#### PRIOR YEAR ERROR AND RESTATEMENT

During the preparation of the 31 July 2023 NAV, the Investment Adviser discovered an error in the NAV methodology for valuing short term cash flows, which was introduced at the 31 October 2022 financial year end. It has been ascertained that this resulted in an overstatement of the NAV at 31 October 2022 of £4,653,154.

The comparatives for 31 October 2022 disclosed in this annual report have been restated with the updated valuation figures as a result of the above error. The restatement impacts the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and related notes to the Financial Statements as at 31 October 2022. A detailed breakdown of the impact of the valuation error per project has been disclosed in note 10.

#### Impact on Statement of Comprehensive Income

|                                                                     | 31 October 2022*<br>£ | Error adjustment<br>£ | 31 October 2022<br>(Restated)<br>£ |
|---------------------------------------------------------------------|-----------------------|-----------------------|------------------------------------|
| Net (loss)/gain on investment at fair value through profit and loss | 53,080,091            | (4,653,154)           | 48,426,937                         |
| Earnings per share (basic and diluted): Ordinary Share              | 0.25                  | (0.02)                | 0.23                               |

#### Impact on Statement of Financial Position

|                                            | 31 October 2022*<br>£ | Error adjustment<br>£ | 31 October 2022<br>(Restated)<br>£ |
|--------------------------------------------|-----------------------|-----------------------|------------------------------------|
| <b>Non-current assets</b>                  |                       |                       |                                    |
| Investments held at fair value             | 145,685,845           | (4,653,154)           | 141,032,691                        |
| <b>Shareholders' equity</b>                |                       |                       |                                    |
| Capital reserve                            | 53,080,091            | (4,653,154)           | 48,426,937                         |
| Net asset value per Ordinary share (pence) | 122.77                | (2.22)                | 120.55                             |

\* 31 October 2022 results as published before the restatement

### 3. NEW AND REVISED STANDARDS AND INTERPRETATIONS

#### NEW AND REVISED STANDARDS AND INTERPRETATIONS

The accounting policies used in the preparation of the Financial Statements have been consistently applied during the year ended 31 October 2023.

There have been no new standards, amendments to current standards, or new interpretations which the Directors consider to have an impact on these Financial Statements.

#### NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE

The following standards have been issued but are not effective for this accounting year and have not been adopted early:

- IAS 1 (amended) - Amendment to IAS 1 - Non-current liabilities with covenants- effective from 1 January 2024.
- IAS 8 (amended) - Amendment to IAS 7 and IFRS 7 - Supplier finance - effective from 1 January 2024.

Adoption of the new and revised standards and relevant interpretations in future periods is not expected to have a material impact on the Financial Statements of the Company.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Financial Statements have been consistently applied during the year ended 31 October 2023.

The principal accounting policies applied in the preparation of the Financial Statements are set out below:

#### SEGMENTAL INFORMATION

The Board is of the opinion that the Group is engaged in a single segment business, being the investment in energy storage and complementary renewable energy generation assets, with an initial focus in a diversified portfolio of utility scale BESS assets, located in diverse locations across Great Britain.



## **INCOME**

Income comprises Investment income and Service fee income. Investment income arising from fair value gains pertaining to interest on the portfolio assets loan investments is recognised in the Revenue account of the Statement of Comprehensive Income. The remaining fair value gains and losses are disclosed in net gain on investments at fair value through profit and loss and recorded in the Capital account. Service fee income is recognised on an accruals basis from fees charged to each portfolio company regarding the Company's resources used for project related matters. The Service fee income is recognised in the Revenue account of the Statement of Comprehensive Income.

## **EXPENSES**

Operating expenses are the Company's costs incurred in connection with the ongoing management of the Company's investments and administrative costs. Operating expenses are accounted for on an accruals basis and charged to the Statement of Comprehensive Income. Expenses are charged through the Revenue account except those which are capital in nature, these include those which are incidental to the acquisition, disposal or enhancement of an investment, which are accounted for through the Capital account. In terms of the AIC SORP the Company applies the general accounting basis and charges the full Investment Adviser fees to revenue ("**the non-allocation approach**"). Costs directly relating to the issue of Ordinary Shares are charged to share premium.

## **TAXATION**

The Company is approved as an Investment Trust Company ("**ITC**") under sections 1158 and 1159 of the Corporation Taxes Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999 for accounting periods commencing on or after 25 May 2018. The approval is subject to the Company continuing to meet the eligibility conditions of the Corporations Tax Act 2010 and the Statutory Instrument 2011/29 99. The Company intends to ensure that it complies with the ITC regulations on an ongoing basis and regularly monitors the conditions required to maintain ITC status.

## **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash at bank and call deposits held with the bank on a 32 day notice which can be readily converted to cash. The fixed deposit account held with the bank is used for cash management purposes.

## **TRADE AND OTHER RECEIVABLES**

Trade and other receivables are recognised initially at fair value and subsequently stated at amortised cost less loss allowance which is determined using the simplified approach to measuring expected credit losses, the effect of which is considered immaterial.

## **TRADE AND OTHER PAYABLES**

Trade and other payables are recognised initially at fair value and subsequently stated at amortised cost.

## **EQUITY**

Equity instruments issued by the Company are recorded as the amount of the proceeds received, net of directly attributable issue costs. Costs not directly attributable to the issue are immediately expensed in the Statement of Comprehensive Income.

## **FINANCIAL INSTRUMENTS**

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of amortised cost or fair value through profit or loss. Derivative instruments are measured at fair value through profit and loss.

## **FINANCIAL ASSETS**

The Company's financial assets, other than cash and cash equivalents and trade and other receivables, are measured at fair value through profit or loss as they are held in the business model whose performance is evaluated and assessed on a fair value basis.

## **FINANCIAL LIABILITIES MEASURED AT AMORTISED COST**

The Company classifies all financial liabilities as financial liabilities at amortised cost except the C Share Liability which was measured at fair value through profit or loss.

## **RECOGNITION AND DERECOGNITION**

Financial assets are recognised on trade date, the date on which the Company commits to purchase or sell an asset. A financial asset is derecognised where the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset. The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

## **IMPAIRMENT OF FINANCIAL ASSETS**

The Company holds trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such has chosen to apply the simplified approach to measuring expected credit losses, as permitted by IFRS 9, which uses a lifetime expected loss allowance for all trade receivables.

## **DIVIDENDS PAYABLE**

Dividends are recognised when they become legally payable, as a reduction in equity in the Financial Statements. Interim equity dividends are recognised when paid. Dividends on the shares are paid quarterly, all in the form of interim dividends.

## **5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

During the year the Directors considered the following significant judgements, estimates and assumptions:

## **SIGNIFICANT JUDGEMENT**

### **Assessment as an Investment Entity**

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them unless their main purpose and activities are providing services related to the Company's investment activities. To determine that the Company continues to meet the definition of an investment entity, the Company is required to satisfy the following three criteria:

- a) the Company obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- b) the Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- c) the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company meets the criteria as follows:

- the Company's investment objective is to provide investors with an attractive and sustainable level of income returns, with the potential for capital growth, by investing in commercial scale energy storage and renewable energy generation projects, with an initial focus on a diversified portfolio of BESS located in Great Britain ("Projects");
- the Company provides investment management services and has several investors who pool their funds to gain access to infrastructure related investment opportunities that they might not have had access to individually; and
- the Company has elected to measure and evaluate the performance of all of its investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to Directors, who use fair value as the primary measurement attribute to evaluate performance.

In respect of the second criterion, Projects may also be disposed of, or otherwise realised, where the AIFM recommends (acting upon advice given by the Investment Adviser) that such realisation is in the interests of the Company. Such circumstances may include (without limitation) disposals for the purposes of realising or preserving value, or of realising cash resources for reinvestment or otherwise. The Directors are responsible for the determination of the Company's investment policy and strategy and has overall responsibility for the Company's activities including the review of investment activity and performance. The Board will also make the decision to acquire or dispose of Projects, based on recommendations made by the AIFM acting upon advice given by the Investment Adviser.

A further indicator of whether a Company is an investment entity is the expectation they hold more than one asset. During the year the Company transferred all of its subsidiaries to HEIT Holdings Ltd, details of these transactions are disclosed in note 10. Following the transfer of those subsidiaries and the sale of Harmony RC Limited in the year, the Company holds one investment directly but several indirectly, as there is a portfolio of assets within HEIT Holdings Ltd.

The Directors have evaluated whether the Company is an investment entity and concluded that it meets the definition set out in IFRS 10. Therefore, its subsidiaries are measured at fair value through profit or loss, in accordance with IFRS 9 'Financial Instruments'.

## **ASSESSMENT OF HEIT HOLDINGS LTD AS AN INVESTMENT ENTITY**

HEIT Holdings Ltd is not consolidated as the company is also considered to be an investment entity (see Note 10). The board of directors of HEIT Holdings Ltd has considered the requirements of IFRS 10 as shown above and confirmed that HEIT Holdings Ltd meets these criteria.

## **SIGNIFICANT ESTIMATION UNCERTAINTY**

### **Valuation of Investments**

Significant estimates in the Company's Financial Statements include the amounts recorded for the fair value of the investments in the subsidiary of the Company, HEIT Holdings Ltd. These estimates and assumptions are subject to measurement uncertainty by their nature. The impact on the Company's Financial Statements of changes in the next financial year may be significant.

These estimates and sensitivities are further discussed in note 18.

## **6. INCOME**

|                                        | 31 October 2023<br>£ | 31 October 2022<br>£ |
|----------------------------------------|----------------------|----------------------|
| Service fee income                     | 1,837,458            | 1,853,151            |
| Investment income                      | 11,582,996           | 1,614,060            |
| Bank interest income                   | 340,939              | 453,973              |
| Interest income on loan to shareholder | 12,739               | 15,002               |
|                                        | <b>13,774,132</b>    | <b>3,936,186</b>     |

Refer to note 10 for further detail on interest on loans to subsidiaries recognised in Investment income.

## 7. ADMINISTRATIVE AND OTHER EXPENSES

|                                                                                 | 31 October 2023<br>£ | 31 October 2022<br>£ |
|---------------------------------------------------------------------------------|----------------------|----------------------|
| Administrative fees                                                             | 57,300               | 48,000               |
| AIFM fees                                                                       | 67,424               | 61,573               |
| Director and officer insurance                                                  | 40,725               | 44,917               |
| Directors' fees                                                                 | 225,750              | 226,577              |
| Fees payable to the auditor for the audit of the Company's Financial Statements | 184,000              | 140,000              |
| Fees payable to the auditor for the audit of the Company's initial accounts     | -                    | 100,000              |
| Legal and professional fees                                                     | 519,464              | 791,052              |
| Listing fees expensed                                                           | -                    | 377,035              |
| Investment adviser fees                                                         | 2,163,222            | 1,848,845            |
| Secretarial fees                                                                | 82,097               | 45,000               |
| Sundry expenses                                                                 | 135,902              | 316,190              |
|                                                                                 | <b>3,475,884</b>     | <b>3,999,189</b>     |

The Company has no employees and therefore no employee-related costs have been incurred.

During the year the audit fees relating to the statutory audits of HEIT Holdings Ltd and its subsidiaries totalled £64,675 (2022: £53,500).

### ADMINISTRATIVE AND SECRETARIAL FEES

JTC (UK) Limited has been appointed to act as administrator and secretary for the Company through the Administration and Company Secretarial Agreement with effect from 14 October 2021. JTC (UK) Limited is entitled to a minimum fee of £48,000 per annum for accounting and administration services to the Company as well as a minimum fee of £45,000 per annum for the provision of Governance and Company Secretarial services.

During the year, fees incurred with JTC (UK) Limited amounted to £139,397 (2022: £123,000) and £28,000 (2022: £93,000) remained payable as at 31 October 2023.

### AIFM

JTC Global AIFM Solutions Limited has been appointed to act as the AIFM for the Company through the AIFM Agreement with effect from 14 October 2021. The AIFM is entitled to charge an annual rate of 0.03% of the Company's equity raised subject to a minimum annual fee of £30,000.

During the year, fees incurred with the AIFM amounted to £72,222 (2022: £61,573) and £5,620 (2022: £21,000) remained payable as at 31 October 2023.

### INVESTMENT ADVISER

Investment Adviser fees are payable monthly in arrears. Details on how the fees are charged are disclosed in note 23.

## 8. TAXATION

The Company is recognised as an ITC for accounting periods beginning on or after 1 October 2021 and is taxed at the main rate of 19% until 31 March 2023 and then at 25% until 31 October 2023. An ITC may claim a tax deduction for the distribution of income that arises from interest receipts on the loan notes. Therefore, no corporation tax charge has been recognised for the Company for the Period to 31 October 2023.

|                                                   | Revenue<br>£ | Capital<br>£ | 31 October<br>2023<br>£ | Revenue<br>£ | Capital<br>(Restated)<br>£ | 31 October<br>2022<br>(Restated)<br>£ |
|---------------------------------------------------|--------------|--------------|-------------------------|--------------|----------------------------|---------------------------------------|
| a) Tax charge in profit and loss UK               |              |              |                         |              |                            |                                       |
| Corporation tax                                   |              |              |                         | -            | -                          | -                                     |
| b) Reconciliation of the tax charged for the year |              |              |                         |              |                            |                                       |
| Profit before tax                                 | 10,298,248   | (7,161,610)  | 3,136,638               | (63,003)     | 48,426,937                 | 48,363,934                            |
| Tax at UK main rate of 25% (2022: 19%)            | 2,318,940    | (1,612,638)  | 706,302                 | (11,970)     | 9,201,118                  | 9,189,148                             |
| Tax effect of:                                    |              |              |                         |              |                            |                                       |
| Non-taxable investment gains on investments       | -            | 1,612,638    | 1,612,638               | -            | (9,201,118)                | (9,201,118)                           |
| Non-deductible expenses                           | 56,343       | -            | 56,343                  | 71,637       | -                          | 71,637                                |
| Tax deductible interest distributions             | (2,476,959)  | -            | (2,476,959)             | (59,667)     | -                          | (59,667)                              |
| Deferred tax not recognised                       | 101,676      | -            | 101,676                 | -            | -                          | -                                     |
| Tax charge for the year                           | -            | -            | -                       | -            | -                          | -                                     |

### (C) FACTORS THAT AFFECT FUTURE TAX CHARGES

ITCs which have been approved by HM Revenue & Customs are exempt from UK corporation tax on their capital gains. Due to the Company's status as an approved ITC, and the intention to continue meeting the conditions required to maintain that approval for the foreseeable future, the Company has not provided for deferred tax in respect of any gains or losses arising on the revaluation of its investments. Taxes are based on the UK Corporate tax rates which was 25% as at 31 October 2023 while a blended rate of 22.5% had been used for the year. The main rate of corporation tax change from 19% to 25% from 1 April 2023 for companies with profits over £250,000.

As at 31 October 2023 the Company had not provided deferred tax assets or liabilities. At that date, based on current estimates and including the accumulation of net allowable losses, the Company had unrelieved losses of £452,504.

## 9. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share ("**EPS**") amounts are calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

|                 | Weighted<br>average number<br>of Ordinary<br>Shares | Net profit<br>attributable to<br>Shareholders<br>£               | EPS<br>31 October 2023<br>£ |
|-----------------|-----------------------------------------------------|------------------------------------------------------------------|-----------------------------|
| Ordinary Shares | 223,045,660                                         | 3,136,638                                                        | 0.01                        |
|                 | Weighted<br>average number<br>of Ordinary<br>Shares | Net profit<br>attributable to<br>Shareholders<br>(Restated)<br>£ | EPS<br>(Restated)<br>£      |
| Ordinary Shares | 210,000,000                                         | 48,363,934                                                       | 0.23                        |

## 10. INVESTMENTS HELD AT FAIR VALUE

|                   | Place of business       | Percentage ownership | Equity               | Loan                 | Closing balance: equity and loans | Equity                             | Loan                 | Closing balance: equity and loans  |
|-------------------|-------------------------|----------------------|----------------------|----------------------|-----------------------------------|------------------------------------|----------------------|------------------------------------|
|                   |                         |                      | 31 October 2023<br>£ | 31 October 2023<br>£ | 31 October 2023<br>£              | 31 October 2022<br>(Restated)<br>£ | 31 October 2022<br>£ | 31 October 2022<br>(Restated)<br>£ |
| HEIT Holdings Ltd | Bond End, Knaresborough | 100%                 | 84,185,808           | 155,839,973          | 240,025,781                       | 2,399,841                          | 1,412,105            | 3,811,946                          |
| HEIT PW Limited   | Bond End, Knaresborough | 100%                 | -                    | -                    | -                                 | 19,286,787                         | 4,250,070            | 23,536,857                         |
| HEIT PW 2 Limited | Bond End, Knaresborough | 100%                 | -                    | -                    | -                                 | 19,754,327                         | 1,682,509            | 21,436,836                         |
| HEIT BD Limited   | Bond End, Knaresborough | 100%                 | -                    | -                    | -                                 | 3,400,762                          | 2,608,865            | 6,009,627                          |
| HEIT FM Limited   | Bond End, Knaresborough | 100%                 | -                    | -                    | -                                 | 5,091,619                          | 6,028,478            | 11,120,097                         |
| HEIT RH Limited   | Bond End, Knaresborough | 100%                 | -                    | -                    | -                                 | 4,822,367                          | 8,457,458            | 13,279,825                         |
| HEIT LR Limited   | Bond End, Knaresborough | 100%                 | -                    | -                    | -                                 | 7,331,176                          | 10,866,742           | 18,197,918                         |
| HEIT BF Limited   | Bond End, Knaresborough | 100%                 | -                    | -                    | -                                 | 19,862,817                         | 23,776,768           | 43,639,585                         |
|                   |                         |                      | 84,185,808           | 155,839,973          | 240,025,781                       | 81,949,696                         | 59,082,995           | 141,032,691                        |

On 15 December 2022 the Company announced the acquisition of three "shovel ready" pipeline projects totalling 181.9 MW / 363.8 MWh, increasing the Company's portfolio to nine BESS projects with a total capacity of c.500 MW / 1 GWh.

The Company has acquired the projects pursuant to a Pipeline Agreement entered into on IPO which granted the Company a right of first refusal of up to 1GW of BESS projects, from Harmony Energy Limited and Ritchie Bland Energy No. 2 Limited. The total consideration for the three projects were c. £21.9 million (supported by the independent valuation performed by Mazars) being satisfied through the payment of c.14.5 million in cash (being the net proceeds of the C Share issue by the Company as announced on 12 October 2022) in conjunction with the issue of 7 million new C Shares to the Developers and a further cash payment of £0.4 million for initial project costs.

The three projects, HEIT WG Limited, HEIT HP Limited and Harmony RC Limited, known as Wormald Green, Hawthorn Pit and Rye Common (Phases I and II), were expected to be energised in Q2 2024, Q3 2024 and Q4 2024 financial year respectively, with grid offers secured.

As described in note 1, on 9 March 2023, the Company sold its investments in HEIT PW Limited, HEIT PW 2 Limited, HEIT BD Limited, HEIT FM Limited, HEIT RH Limited, HEIT LR Limited, and HEIT BF Limited to its subsidiary HEIT Holdings Ltd for a total consideration of £91,105,212, which was the fair value of the projects at the date of transfer. HEIT Holdings Ltd satisfied this transfer by issuing and allotting 91,105,212 Ordinary Shares of £1 each to the Company.

On 4 May 2023, the Company sold 2 further investments in HEIT HP Limited and HEIT WG Limited to its subsidiary HEIT Holdings Ltd for a total consideration of £8,893,079, which was the fair value of the projects at the date of transfer. HEIT Holdings Ltd satisfied this transfer by issuing and allotting a further 8,893,079 Ordinary Shares of £1 each to the Company.

On 4 September 2023 the Company announced the sale of its Rye Common Project, Harmony RC Limited, to Pulse Clean Energy Limited at a premium to its carrying value.

The table below summarises the movement of investments held at fair value for the year ended 31 October 2023:

|                                                                   | 31 October 2023<br>£ | 31 October 2022<br>(Restated)<br>£ |
|-------------------------------------------------------------------|----------------------|------------------------------------|
| Opening balance (restated)                                        | 141,032,691          | -                                  |
| Investments purchased during the year                             | 21,936,818           | 33,522,759                         |
| Investment in equity of HEIT Holdings Ltd                         | 99,998,291           | -                                  |
| Loans advanced during the year                                    | 86,286,593           | 57,468,935                         |
| Interest on loans                                                 | 11,582,996           | 1,614,060                          |
| Sale of equity of subsidiaries to HEIT Holdings Ltd               | (99,998,291)         | -                                  |
| Sale of Harmony RC Limited                                        | (13,651,707)         | -                                  |
| Net loss on investments held at fair value through profit or loss | (7,161,610)          | 48,426,937                         |
| <b>Closing balance</b>                                            | <b>240,025,781</b>   | <b>141,032,691</b>                 |

## INVESTMENT HELD IN HEIT HOLDINGS LTD

The Company owns 100% of the Ordinary Shares in HEIT Holdings Ltd. The Company has a number of indirectly held subsidiaries held by HEIT Holdings Ltd. The investment totalling £240,025,781 in HEIT Holdings Ltd comprises of the underlying investments in the following subsidiaries (2022: Nil Investments held through HEIT Holdings Ltd). The Fair value measurements and sensitivities used to measure these investments are disclosed in note 18.

| Subsidiaries                                          | Project                  | Place of business       | Percentage ownership | Fair value £       |
|-------------------------------------------------------|--------------------------|-------------------------|----------------------|--------------------|
| HEIT PW Limited (previously Harmony (PW) Limited)     | Pillswood 1              | Bond End, Knaresborough | 100%                 | 48,918,397         |
| HEIT PW 2 Limited (previously Harmony (PW) 2 Limited) | Pillswood 2              | Bond End, Knaresborough | 100%                 | 49,012,689         |
| HEIT BD Limited (previously Harmony BD Limited)       | Broadditch               | Bond End, Knaresborough | 100%                 | 11,516,954         |
| HEIT FM Limited (previously Harmony FM Limited)       | Farnham                  | Bond End, Knaresborough | 100%                 | 20,578,103         |
| HEIT RH Limited (previously Harmony RH Limited)       | Rusholme                 | Bond End, Knaresborough | 100%                 | 27,130,822         |
| HEIT LR Limited (previously Daisy No. 2 Limited)      | Little Raith/Daisy No. 2 | Bond End, Knaresborough | 100%                 | 42,789,696         |
| HEIT BF Limited (previously Harmony BF Limited)       | Bumpers                  | Bond End, Knaresborough | 100%                 | 87,028,196         |
| HEIT HP Limited (previously Harmony HP (JV) Limited)  | Hawthorn Pit             | Bond End, Knaresborough | 100%                 | 27,508,395         |
| HEIT WG Limited (previously Harmony WG (JV) Limited)  | Wormald Green            | Bond End, Knaresborough | 100%                 | 17,402,843         |
| Total fair value of projects                          |                          |                         |                      | 331,886,095        |
| Working capital                                       |                          |                         |                      | 3,196,508          |
| Senior loan facility                                  |                          |                         |                      | (95,056,822)       |
| <b>Total investment</b>                               |                          |                         |                      | <b>240,025,781</b> |

As at 31 October 2023 ("Valuation Date"), the Company's subsidiary HEIT Holdings Ltd had live investments in the following nine BESS projects in the UK - Pillswood 1, Pillswood 2, Broadditch, Farnham, Rusholme, Little Raith, Bumpers, Wormald Green and Hawthorn Pit. These projects, taken together, have a combined rated power capacity of 395.4 MW and an energy storage capacity of c.790.80 MWh.

The Company's final seed portfolio project, Rusholme (70 MWh / 35 MW), has completed construction and has been cold commissioned. This project is currently awaiting confirmation of the energisation date from the relevant DNO which is now expected to be in Q1 2024.

All other seed projects are operational. Hawthorn Pit and Wormald Green are due to complete construction in the first half of 2024.

The Projects attract four different streams of revenues: trading revenue (wholesale, Balancing Mechanism and churn), Ancillary Services (Frequency Response Revenue, Dynamic Containment and Dynamic Regulation), CM revenue and embedded benefits (via the Embedded Export Tariff). Given the difficulty in accurately forecasting revenues over the long-term, the Company purchases independent forecasts from three providers. By blending the three forecasts, the Company is able to take account of differing views of long-term drivers of value.

Two of these providers focus on long-term fundamental-based forecasts whereas one is focused on shorter-term battery specific performance.

| Subsidiaries      | Opening balance: equity and loans £ | Equity acquisitions during the period £ | Loans: principal advanced/ (repaid) £ | Loans: interest charged £ | Cost at 31 October 2022 £ | Net Fair value movement (Restated) £ | Closing balance: equity and loans (Restated) £ |
|-------------------|-------------------------------------|-----------------------------------------|---------------------------------------|---------------------------|---------------------------|--------------------------------------|------------------------------------------------|
| HEIT PW Limited   | -                                   | 8,224,633                               | 4,075,047                             | 175,023                   | 12,474,703                | 11,062,154                           | 23,536,857                                     |
| HEIT PW 2 Limited | -                                   | 8,931,692                               | 1,631,222                             | 51,287                    | 10,614,201                | 10,822,635                           | 21,436,836                                     |
| HEIT BD Limited   | -                                   | 592,489                                 | 2,451,079                             | 157,786                   | 3,201,354                 | 2,808,273                            | 6,009,627                                      |
| HEIT FM Limited   | -                                   | 2,821,324                               | 5,777,562                             | 250,916                   | 8,849,802                 | 2,270,295                            | 11,120,097                                     |
| HEIT RH Limited   | -                                   | 5,039,989                               | 8,144,129                             | 313,329                   | 13,497,447                | (217,622)                            | 13,279,825                                     |
| HEIT LR Limited   | -                                   | 7,912,631                               | 10,565,352                            | 301,390                   | 18,779,373                | (581,455)                            | 18,197,918                                     |
| HEIT Holdings Ltd | -                                   | 1                                       | 1,379,402                             | 32,703                    | 1,412,106                 | 2,399,840                            | 3,811,946                                      |
| HEIT BF Limited   | -                                   | -                                       | 23,445,142                            | 331,626                   | 23,776,768                | 19,862,817                           | 43,639,585                                     |
| <b>TOTAL</b>      | <b>-</b>                            | <b>33,522,759</b>                       | <b>57,468,935</b>                     | <b>1,614,060</b>          | <b>92,605,754</b>         | <b>48,426,937</b>                    | <b>141,032,691</b>                             |

#### PRIOR PERIOD ERROR AND RESTATEMENT

As disclosed in note 2 during the preparation of the 31 July 2023 NAV, the Investment Adviser discovered an error in the NAV methodology for valuing short term cash flows, which was introduced at the 31 October 2022 financial year end. It has been ascertained that this resulted in an overstatement of the NAV at 31 October 2022 of £4,653,154.

#### Impact of correction of error on Investments held at fair value as at 31 October 2022

| Subsidiaries      | As previously reported £ | As restated £ | Value of error £ |
|-------------------|--------------------------|---------------|------------------|
| HEIT PW Limited   | 24,532,949               | 23,536,857    | (996,092)        |
| HEIT PW 2 Limited | 22,338,183               | 21,436,836    | (901,347)        |
| HEIT BD Limited   | 6,158,235                | 6,009,627     | (148,608)        |
| HEIT FM Limited   | 12,381,065               | 11,120,097    | (1,260,968)      |
| HEIT RH Limited   | 13,114,108               | 13,279,825    | 165,717          |
| HEIT LR Limited   | 18,515,385               | 18,197,918    | (317,467)        |
| HEIT Holdings Ltd | 3,811,946                | 3,811,946     | -                |

|                 |                    |                    |                    |
|-----------------|--------------------|--------------------|--------------------|
| HEIT BF Limited | 44,833,974         | 43,639,585         | (1,194,389)        |
| <b>TOTAL</b>    | <b>145,685,845</b> | <b>141,032,691</b> | <b>(4,653,154)</b> |

## 11. TRADE AND OTHER RECEIVABLES

|                                  | 31 October 2023<br>£ | 31 October 2022<br>£ |
|----------------------------------|----------------------|----------------------|
| Prepayments                      | 48,486               | 35,172               |
| VAT receivable                   | 1,367,690            | 482,555              |
| Intercompany loans receivable    | 748,668              | 482,925              |
| Amounts due from related parties | 2,247,402            | 381,041              |
| Other receivables                | 40,027               | -                    |
|                                  | <b>4,452,273</b>     | <b>1,381,693</b>     |

## 12. LOAN TO SHAREHOLDER

|                                                        | 31 October 2023<br>£ | 31 October 2022<br>£ |
|--------------------------------------------------------|----------------------|----------------------|
| Drawings under Credit Facility granted to Shareholder: |                      |                      |
| Opening balance                                        | 1,443,506            | -                    |
| Drawdowns during the year/Period                       | 350,913              | 1,443,506            |
| Loan discharged                                        | (1,794,419)          |                      |
| <b>Closing balance</b>                                 | <b>-</b>             | <b>1,443,506</b>     |

On 1 July 2022, the Company granted a £5,000,000 revolving credit facility to a shareholder Harmony Energy Limited ("**the Facility**"). Interest was charged on the Facility at a margin rate of 3% plus 1 year SONIA (sterling overnight index average).

The Facility was discharged on 14 December 2022 as part of the sale agreement for the three projects purchased during the year as disclosed in note 10.



### 13. CASH AND CASH EQUIVALENTS

|                       | 31 October 2023<br>£ | 31 October 2022<br>£ |
|-----------------------|----------------------|----------------------|
| Cash at bank          | 18,093,379           | 105,471,626          |
| Fixed Deposit account | -                    | 19,100,000           |
|                       | <b>18,093,379</b>    | <b>124,571,626</b>   |

### 14. TRADE AND OTHER PAYABLES

|                                        | 31 October 2023<br>£ | 31 October 2022<br>£ |
|----------------------------------------|----------------------|----------------------|
| Trade creditors and operating accruals | 101,599              | 301,013              |
| Administrator fees                     | 28,000               | 48,000               |
| AIFM fees                              | 5,621                | 21,000               |
| Audit fees                             | 184,000              | 140,000              |
| Investment adviser fee accrual         | 144,121              | 220,351              |
|                                        | <b>463,341</b>       | <b>730,364</b>       |

### 15. FINANCIAL LIABILITY AT FAIR VALUE

|                                         | 31 October 2023<br>£ | 31 October 2022<br>£ |
|-----------------------------------------|----------------------|----------------------|
| Opening Balance                         | 14,542,172           | -                    |
| Issuance of C Shares                    | 7,000,000            | 14,771,364           |
| Less equity costs                       | -                    | (229,192)            |
| C Shares converted into Ordinary Shares | (21,542,172)         | -                    |
|                                         | <b>-</b>             | <b>14,542,172</b>    |

On 12 October 2022, the Company issued 14,771,364 C Shares of £0.10 each at a price of £1.00 per C Share. The C Shares issued had equal voting rights with Ordinary Shares. As described in note 10 a further 7,000,000 C Shares were issued during the year as part consideration for the purchase of the three new projects resulting in a total of 21,771,364 C Shares being in issue.

On 26 January 2023, the Company announced the conversion of all of its C Shares to Ordinary Shares at a ratio of 1:0.786735 resulting in the 21,771,364 C shares being converted into 17,128,295 Ordinary Shares.

The Conversion Ratio is the ratio of the net asset value per C Share to the net asset value per Ordinary Share as at the Conversion Calculation Date. On conversion, the new Ordinary Shares issued as a result of the conversion of C Shares ranked pari passu with the existing Ordinary Shares in issue on the date of conversion.

### 16. CATEGORIES OF FINANCIAL INSTRUMENTS

|                                                                    | 31 October 2023<br>£ | 31 October 2022<br>(Restated)<br>£ |
|--------------------------------------------------------------------|----------------------|------------------------------------|
| <b>Financial Assets</b>                                            |                      |                                    |
| <b>Financial Assets at fair value through profit and loss</b>      |                      |                                    |
| Investments held at fair value                                     | 240,025,781          | 141,032,691                        |
| <b>Financial assets at amortised cost</b>                          |                      |                                    |
| Trade and other receivables                                        | 4,452,273            | 1,381,693                          |
| Loan to Shareholder                                                | -                    | 1,443,506                          |
| Cash and Cash Equivalents                                          | 18,093,379           | 124,571,626                        |
| <b>Total financial assets</b>                                      | <b>262,571,433</b>   | <b>268,429,516</b>                 |
| <b>Financial liabilities</b>                                       |                      |                                    |
| <b>Financial liabilities at fair value through profit and loss</b> |                      |                                    |
| Financial liability at fair value                                  | -                    | 14,542,172                         |
| <b>Financial liabilities at amortised cost</b>                     |                      |                                    |
| Trade and other payables                                           | 463,341              | 730,364                            |
| <b>Total financial liabilities</b>                                 | <b>463,341</b>       | <b>15,272,536</b>                  |

At the balance sheet date, all financial assets and liabilities were measured at amortised cost except for the investments held at fair value which are measured at fair value as further explained in note 15 and 18 respectively. The carrying amount for the financial assets and liabilities measured at amortised costs approximates fair value.

### 17. FINANCIAL RISK MANAGEMENT

The Company is exposed to certain risks through the ordinary course of business and the Company's financial risk management objective is to minimise the effect of these risks. The management of risks is performed by the Directors of the Company and the exposure to each financial risk considered potentially material to the Company, how it arises and the policy for managing it is summarised below:

#### CREDIT RISK

The Company is exposed to third-party credit risk in several instances and the possibility that counterparties with which the Company and its subsidiaries, together the "Group", contracts may fail to perform their obligations in the manner anticipated by the Group.

Counterparty credit risk exposure limits are determined based on the credit rating of the counterparty. Counterparties are assessed and monitored on the basis of their ratings from Standard & Poor's and/or Moody's. No financial transactions are permitted with counterparties with a credit rating of less than BBB- from Standard & Poor's or Baa3 from Moody's unless specifically approved by the Board. Cash and bank deposits are held with major international financial institutions who each hold a Moody's credit rating of A2 or higher.

Cash and other assets that are required to be held in custody will be held at a bank. In the event of the insolvency of the bank, the Company will rank as a general creditor in relation thereto and may not be able to recover such cash in full, or at all.

In addition, credit risk relating to receivables at subsidiary level is managed by diversifying exposures among a portfolio of counterparties and through the setting and monitoring of credit limits.

## CURRENCY RISK

The Company is not exposed to currency risk as all its assets, liabilities and transactions during the current year were denominated in British Pound Sterling.

## LIQUIDITY RISK

The objective of liquidity management is to ensure that all commitments which are required to be funded can be met out of readily available and secure sources of funding. The Company's only financial liabilities are trade and other payables. The Company intends to hold sufficient cash across the Company and subsidiaries' operating accounts to meet the working capital needs.

As at 31 October 2023, the Company held cash at bank of £18,093,379 (2022: £124,571,626) and had trade and other payables totalling £463,341 (2022: £730,364). The following table reflects the maturity analysis of financial assets and liabilities.

Although the Company has no direct external debt, it has indirect external debt through its subsidiary as described in note 2 under Going Concern and in the interest rate risk note. The Board and Investment Adviser review the projected cash flow for the group on a regular basis to ensure that there is sufficient cash flow to cover the debt and interest repayments of the external debt as they fall due.

| As at 31 October 2023                                   | <1 year<br>£      | 1 to 2 years<br>£ | 2 to 5 years<br>£ | >5 years<br>£      | Total<br>£         |
|---------------------------------------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| Financial assets                                        |                   |                   |                   |                    |                    |
| Financial assets at fair value through profit and loss: |                   |                   |                   |                    |                    |
| Loan investment to subsidiaries*                        | -                 | -                 | -                 | 155,839,973        | 155,839,973        |
| Financial assets at amortised cost:                     |                   |                   |                   |                    |                    |
| Cash at bank                                            | 18,093,379        | -                 | -                 | -                  | 18,093,379         |
| <b>Total financial assets</b>                           | <b>18,093,379</b> | <b>-</b>          | <b>-</b>          | <b>155,839,973</b> | <b>173,933,352</b> |

| As at 31 October 2023                                        | <1 year<br>£   | 1 to 2 years<br>£ | 2 to 5 years<br>£ | >5 years<br>£ | Total<br>£     |
|--------------------------------------------------------------|----------------|-------------------|-------------------|---------------|----------------|
| Financial liabilities                                        |                |                   |                   |               |                |
| Financial liabilities at fair value through profit and loss: |                |                   |                   |               |                |
| Financial liabilities at amortised cost:                     |                |                   |                   |               |                |
| Trade and other payables                                     | 463,341        | -                 | -                 | -             | 463,341        |
| <b>Total financial liabilities</b>                           | <b>463,341</b> | <b>-</b>          | <b>-</b>          | <b>-</b>      | <b>463,341</b> |

| As at 31 October 2022                                   | <1 year<br>£       | 1 to 2 years<br>£ | 2 to 5 years<br>£ | >5 years<br>£     | Total<br>£         |
|---------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|--------------------|
| Financial assets                                        |                    |                   |                   |                   |                    |
| Financial assets at fair value through profit and loss: |                    |                   |                   |                   |                    |
| Loan investment to subsidiaries*                        | -                  | -                 | -                 | 59,082,995        | 59,082,995         |
| Financial assets at amortised cost:                     |                    |                   |                   |                   |                    |
| Cash at bank                                            | 124,571,626        | -                 | -                 | -                 | 124,571,626        |
| <b>Total financial assets</b>                           | <b>124,571,626</b> | <b>-</b>          | <b>-</b>          | <b>59,082,995</b> | <b>183,654,621</b> |

| As at 31 October 2022                                        | <1 year<br>£      | 1 to 2 years<br>£ | 2 to 5 years<br>£ | >5 years<br>£ | Total<br>£        |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|---------------|-------------------|
| Financial liabilities                                        |                   |                   |                   |               |                   |
| Financial liabilities at fair value through profit and loss: |                   |                   |                   |               |                   |
| Financial liability at fair value                            | 14,542,172        | -                 | -                 | -             | 14,542,172        |
| Financial liabilities at amortised cost:                     |                   |                   |                   |               |                   |
| Trade and other payables                                     | 730,364           | -                 | -                 | -             | 730,364           |
| <b>Total financial liabilities</b>                           | <b>15,272,536</b> | <b>-</b>          | <b>-</b>          | <b>-</b>      | <b>15,272,536</b> |

\* Includes the interest on loans advanced and excludes the equity portion of the investment.

## MARKET RISK

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects: (i) other price risks, and (ii) interest rate risk. The objective is to minimise market risk through managing and controlling these risks to acceptable parameters, while optimising returns. The Company uses financial instruments in the ordinary course of business in order to manage market risks. Further commentary on financial and market risks is provided in the Principal Risks and Uncertainties section, including inflation.

### (i) PRICE RISK

The Company's investments are susceptible to market price risk arising from uncertainties about future values its portfolio assets. The Company's Investment Adviser provides the Company with investment recommendations. The Company relies on market knowledge of the Investment Adviser, the valuation expertise of the third-party valuer and the use of third-party market forecast information to provide comfort with regard to fair market values of investments reflected in the Financial Statements.

Price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. At 31 October 2023, if the valuation of investments had been 10% higher with all other variables held constant, the increase in net assets attributable to Shareholders for the year would have been £24,002,578 (2022: £14,103,269, restated) higher, arising due to the increase in the fair value of financial instruments. A 10% decrease would have the equal and opposite effect.

The impact of changes in unobservable inputs to the underlying investments is considered in note 18.

## (ii) INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Company is exposed to interest rate risk on its cash balances held with counterparties, and through loans to related parties. As at 31 October 2023 the Company held no fixed bank deposits. The loan to its subsidiary is carried at a fixed rate of interest. Therefore, the Company is not exposed to changes in variable market rates of interest and has therefore not considered any sensitivity to interest rates.

The Company does not have any borrowings as at 31 October 2023 however the Company has access to a £20 million RCF loan as well as a £110,000,000 long term facility through its subsidiary HEIT Holdings Ltd. As at 31 October 2023 HEIT Holdings had drawn down £10,629,073 on its RCF and £84,427,749 on its long-term facility. It is a five-year facility with an initial margin of 300bps over SONIA, rising over time to a maximum of 375bps by year 5.

HEIT Holdings Ltd uses interest rate swaps to mitigate the interest rate risk on its external borrowings. At the beginning of the Year, the Company had an interest rate swap (the "**Swap**") in place in relation to its initial debt facility of £60 million. The interest rate swap fixed the SONIA element of interest payments on this facility at a rate of 2.478% p.a. Multiple rises in Bank of England base rates since the Swap was contracted increased its value significantly. In connection with the extension of the debt facility during the year, the Company chose to break this swap in July 2023, crystallising the mark to market value at the time of £6.1 million. An interest rate cap of 5.25% was put in place in relation to the variable SONIA element of the increased facility, at a cost of £2.8 million.

As at 31 October 2023 the interest rate cap in place in HEIT Holdings Ltd was fair valued at £1,110,781 (2022: £nil). The Swap previously held by HEIT Holding Ltd as at 31 October 2022 was fair valued at £4,090,988.

As described in the Going Concern note, the Company is guarantor to its wholly owned subsidiary, HEIT Holdings Ltd in respect of the long-term facility of £110m and ancillary revolving credit facility of up to £20 million.

Where not a requirement of the underlying loan facilities, the Company will consider the costs and benefits of hedging on a case-by-case basis.

At 31 October 2023, the Company is indirectly exposed to interest rate risk through its investment in the subsidiary. The Company may be exposed to changes in variable market rates of interest and this could impact the discount rate and therefore the valuation of the projects that underpin the value of its investment in subsidiary. The sensitivity of the valuation of the investment projects due to discount rates is disclosed in note 18.

## CAPITAL RISK MANAGEMENT

The capital structure of the Company at year end consists of equity attributable to equity holders of the Company of £262,108,092 (2022: £253,156,980, Restated), comprising issued capital and reserves. The Board continues to monitor the balance of the overall capital structure so as to maintain investor and market confidence. The Company is not subject to any external capital requirements.

## 18. FAIR VALUE MEASUREMENT

### FAIR VALUE MEASUREMENT AND HIERARCHY

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs or any other significant unobservable inputs, that measurement is a Level 3 measurement.

The following table analyses within the fair value hierarchy the Company's assets measured at fair value at 31 October 2023:

|                          | Level 1<br>£ | Level 2<br>£ | Level 3<br>£ |
|--------------------------|--------------|--------------|--------------|
| Investment in subsidiary | -            | -            | 240,025,781  |

The following table analyses within the fair value hierarchy the Company's assets measured at fair value at 31 October 2022 (restated):

|                            | Level 1<br>£ | Level 2<br>£ | Level 3<br>£ |
|----------------------------|--------------|--------------|--------------|
| Investment in subsidiaries | -            | -            | 141,032,691  |

The Company only invests in assets at fair value through profit or loss that are Level 3 in the fair value hierarchy and the reconciliation in the movement of this Level 3 investment is presented below. No transfers between levels took place during the year.

|                                                                                 | 31 October 2023<br>£ | 31 October 2022<br>(Restated)<br>£ |
|---------------------------------------------------------------------------------|----------------------|------------------------------------|
| Opening balance (restated)                                                      | 141,032,691          | -                                  |
| Investments purchased during the year                                           | 21,936,818           | 33,522,759                         |
| Investment in equity of HEIT Holdings Ltd                                       | 99,998,291           | -                                  |
| Loans advanced during the year                                                  | 86,286,593           | 57,468,935                         |
| Interest on loans                                                               | 11,582,996           | 1,614,060                          |
| Sale of equity of subsidiaries sold to HEIT Holdings Ltd                        | (99,998,291)         | -                                  |
| Sale of Harmony RC Limited                                                      | (13,651,707)         | -                                  |
| Unrealised (loss)/gain on investments held at fair value through profit or loss | (8,668,181)          | 48,426,937                         |
| Realised gains on sale of investments                                           | 1,506,571            | -                                  |
| <b>Closing balance</b>                                                          | <b>240,025,781</b>   | <b>141,032,691</b>                 |

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

## VALUATION METHODOLOGY

The fair value of the investment in HEIT Holdings Ltd represents its net assets as determined by the Company's administrator (reviewed by the Investment Adviser) and further presented by the Investment Adviser and reviewed by the Company's Board of Directors.

The Investment Adviser's assessment of fair value of investments in the underlying projects in HEIT Holdings Ltd is determined in accordance with the International Private Equity and Venture Capital 2018 ("IPEVC") Valuation Guidelines, using levered and unlevered discounted cash flow principles.

The valuation of all the Company's subsidiaries' investments is based primarily on a discounted cash flow methodology ("DCF"), "Income Approach", which indicates value based on the sum of the economic income that an asset, or group of assets, is anticipated to produce in the future. Free cash flow to total invested capital is typically the appropriate measure of economic income. The method discounts free cash flows using an estimated discount rate Weighted Average Cost of Capital ("WACC"). The selected discount rate is supported by the benchmarking of discount rates for assets in the same, or analogous sectors as the portfolio.

## VALUATION PROCESS

Valuations are the responsibility of the Board of Directors. The Investment Adviser is responsible for submitting fair market valuations of the Company's assets to the Directors. The Directors review and approve these valuations following appropriate challenge and examination. Valuations are carried out quarterly, with Mazars acting as independent valuer providing a valuation report semi-annually. The current portfolio consists of non-market traded investments and valuations are based on a DCF methodology.

The Board, supported by the Audit and Risk Committee, reviews the operating and financial assumptions, including the discount rates, used in the valuation of the Company's underlying portfolio and approves them based on the recommendation of the Investment Adviser.

The AIFM acts as an oversight function in order to ascertain whether the valuation risk is being appropriately managed.

As at 31 October 2023, the fair values of all the investments held within the portfolio of the Company's subsidiary HEIT Holdings Ltd, have been determined by Mazars LLP (reviewed by the Investment Adviser) and further presented by the Investment Adviser and reviewed by the Company's Board of Directors.

## SENSITIVITY ANALYSIS

The following tables reflect the range of sensitivities in respect of the fair value movements of the underlying projects held by HEIT Holdings Ltd. The individual project valuations are disclosed in note 10.

The Directors consider the changes in inputs to be within a reasonable expected range based on their understanding of market transactions. This is not intended to imply that the likelihood of change or that possible changes in value would be restricted to this range.

The Directors consider the following to be the most significant key unobservable inputs to the discounted cash flows ("DCF") calculation.

| Subsidiary        | Project                  | Significant input | Base valuation | Valuation technique | Sensitivity | Estimated effect on fair value 31 October 2023 £ | Estimated effect on fair value 31 October 2022 (Restated) £ |
|-------------------|--------------------------|-------------------|----------------|---------------------|-------------|--------------------------------------------------|-------------------------------------------------------------|
| HEIT PW Limited   | Pillswood 1              | Discount rate     | 48,918,397     | DCF                 | +0.5%       | (1,962,728)                                      | (1,422,863)                                                 |
|                   |                          |                   |                |                     | -0.5%       | 2,116,324                                        | 1,521,936                                                   |
|                   |                          |                   |                |                     | +10%        | 5,061,300                                        | 5,166,096                                                   |
|                   |                          |                   |                |                     | -10%        | (5,090,193)                                      | (5,218,459)                                                 |
| HEIT PW 2 Limited | Pillswood 2              | Discount rate     | 49,012,689     | DCF                 | +0.5%       | (1,918,210)                                      | (1,422,118)                                                 |
|                   |                          |                   |                |                     | -0.5%       | 2,067,967                                        | 1,521,177                                                   |
|                   |                          |                   |                |                     | +10%        | 5,052,974                                        | 5,166,553                                                   |
|                   |                          |                   |                |                     | -10%        | (5,096,376)                                      | (5,219,204)                                                 |
| HEIT BD Limited   | Broadditch               | Discount rate     | 11,516,954     | DCF                 | +0.5%       | (454,100)                                        | (324,307)                                                   |
|                   |                          |                   |                |                     | -0.5%       | 488,989                                          | 347,013                                                     |
|                   |                          |                   |                |                     | +10%        | 1,135,280                                        | 1,140,544                                                   |
|                   |                          |                   |                |                     | -10%        | (1,138,960)                                      | (1,147,759)                                                 |
| HEIT FM Limited   | Farnham                  | Discount rate     | 20,578,103     | DCF                 | +0.5%       | (880,030)                                        | (642,185)                                                   |
|                   |                          |                   |                |                     | -0.5%       | 947,875                                          | 687,815                                                     |
|                   |                          |                   |                |                     | +10%        | 2,136,741                                        | 2,057,807                                                   |
|                   |                          |                   |                |                     | -10%        | (2,157,962)                                      | (2,079,858)                                                 |
| HEIT RH Limited   | Rusholme                 | Discount rate     | 27,130,822     | DCF                 | +0.5%       | (1,356,277)                                      | (1,001,684)                                                 |
|                   |                          |                   |                |                     | -0.5%       | 1,461,224                                        | 1,073,703                                                   |
|                   |                          |                   |                |                     | +10%        | 3,450,997                                        | 3,226,431                                                   |
|                   |                          |                   |                |                     | -10%        | (3,503,648)                                      | (3,243,602)                                                 |
| HEIT LR Limited   | Little Raith/Daisy No. 2 | Discount rate     | 42,789,696     | DCF                 | +0.5%       | (1,819,262)                                      | (1,302,349)                                                 |
|                   |                          |                   |                |                     | -0.5%       | 1,957,919                                        | 1,399,499                                                   |
|                   |                          |                   |                |                     | +10%        | 4,941,061                                        | 4,190,210                                                   |
|                   |                          |                   |                |                     | -10%        | (5,053,689)                                      | (4,186,939)                                                 |
| HEIT BF Limited   | Bumpers                  | Discount rate     | 87,028,196     | DCF                 | +0.5%       | (4,010,981)                                      | (2,990,498)                                                 |
|                   |                          |                   |                |                     | -0.5%       | 4,318,710                                        | 3,212,404                                                   |
|                   |                          |                   |                |                     | +10%        | 9,685,739                                        | 8,679,227                                                   |
|                   |                          |                   |                |                     | -10%        | (9,930,227)                                      | (8,674,979)                                                 |

|                 |               |               |            |     |       |             |   |
|-----------------|---------------|---------------|------------|-----|-------|-------------|---|
| HEIT WG Limited | Wormald Green | Discount rate | 17,402,843 | DCF | +0.5% | (1,154,003) | - |
|                 |               |               |            |     | -0.5% | 1,246,378   | - |
|                 |               | Revenue       |            |     | +10%  | 3,170,805   | - |
|                 |               |               |            |     | -10%  | (3,354,679) | - |
| HEIT HP Limited | Hawthorn Pit  | Discount rate | 27,508,395 | DCF | +0.5% | (1,733,055) | - |
|                 |               |               |            |     | -0.5% | 1,870,705   | - |
|                 |               | Revenue       |            |     | +10%  | 4,708,722   | - |
|                 |               |               |            |     | -10%  | (4,804,294) | - |

## PORTFOLIO SENSITIVITY

The table below reflects a range of sensitivities which the Directors consider to have a significant impact on the portfolio of investments held by the Company:

| Unobservable input     | Sensitivity | Estimated effect on fair value 31 October 2023<br>£ | Estimated effect on fair value 31 October 2022<br>(Restated)<br>£ |
|------------------------|-------------|-----------------------------------------------------|-------------------------------------------------------------------|
| Inflation              | +0.5%       | 18,522,081                                          | 13,322,583                                                        |
|                        | -0.5%       | (18,269,983)                                        | (12,444,295)                                                      |
| Construction costs     | +10%        | (9,880,088)                                         | (25,583,573)                                                      |
|                        | -10%        | 11,205,647                                          | 25,295,180                                                        |
| Operating costs        | +15%        | (9,251,227)                                         | (7,803,622)                                                       |
|                        | -15%        | 9,031,841                                           | 7,789,333                                                         |
| Cell replacement costs | +15%        | (2,769,237)                                         | (1,290,494)                                                       |
|                        | -15%        | 2,786,110                                           | 1,327,324                                                         |

## 19. SHARE CAPITAL

|                                           | Number of Ordinary Shares | Share capital<br>£ | Share premium<br>£ | Capital reduction reserve<br>£ | Total<br>£         |
|-------------------------------------------|---------------------------|--------------------|--------------------|--------------------------------|--------------------|
| As at 31 October 2022                     | 210,000,000               | 2,100,000          | -                  | 202,693,046                    | 204,793,046        |
| Conversion of C Shares to Ordinary Shares | 17,128,295                | 171,283            | 21,370,889         | -                              | 21,542,172         |
| Dividends paid                            | -                         | -                  | -                  | (8,598,849)                    | (8,598,849)        |
| <b>As at 31 October 2023</b>              | <b>227,128,295</b>        | <b>2,271,283</b>   | <b>21,370,889</b>  | <b>194,094,197</b>             | <b>217,736,369</b> |

|                                           | Number of<br>Ordinary Shares | Share capital<br>£ | Share premium<br>£ | Capital<br>reduction<br>reserve<br>£ | Total<br>£         |
|-------------------------------------------|------------------------------|--------------------|--------------------|--------------------------------------|--------------------|
| As at 1 October 2021                      | -                            | -                  | -                  | -                                    | -                  |
| Issue of fully paid Ordinary Shares at £1 | 210,000,000                  | 2,100,000          | 207,900,000        | -                                    | 210,000,000        |
| Ordinary Shares Equity issue costs        | -                            | -                  | (3,106,954)        | -                                    | (3,106,954)        |
| Transfer to capital reduction reserve     | -                            | -                  | (204,793,046)      | 204,793,046                          | -                  |
| Dividends paid                            | -                            | -                  | -                  | (2,100,000)                          | (2,100,000)        |
| <b>As at 31 October 2022</b>              | <b>210,000,000</b>           | <b>2,100,000</b>   | <b>-</b>           | <b>202,693,046</b>                   | <b>204,793,046</b> |

## SHARE CAPITAL, SHARE PREMIUM ACCOUNT AND CAPITAL REDUCTION RESERVE

On 12 October 2021, the Board approved the proposed placing and offer for subscription of Ordinary Shares of £0.01 nominal value each in the capital of the Company at a price of £1.00 per Ordinary Share.

Following a successful application to the High Court and lodgement of the Company's statement of capital with the Registrar of Companies, the Company was permitted to cancel its share premium account. This was effected on 15 December 2021 by a transfer of the balance of £204,793,046 from the share premium reserve to the capital reduction reserve. The capital reduction reserve is classed as a distributable reserve and dividends to be paid by the Company can be offset against this reserve.

On 26 January 2023, the Company announced the conversion of its C Shares. The total number of C Shares that was converted into new Ordinary Shares with voting rights was 17,128,295. Immediately following admission, the total number of the Ordinary Shares in issue was 227,128,295 (Refer to note 15).

## 20. RESERVES

The nature and purpose of each of the reserves included within equity at 31 October 2023 are as follows:

- Share premium reserve: represents the surplus of the gross proceeds of share issues over the nominal value of the shares, net of the direct costs of equity issues and net of conversion amount.
- Capital reduction reserve: represents a distributable reserve created following a Court approved reduction in capital. This reserve is distributable and may be used, where the Board considers it appropriate, by the Company for the purpose of paying dividends to Shareholders.
- Revenue reserve: represents a distributable reserve of cumulative net gains and losses recognised in the Revenue account of the Statement of Comprehensive Income; and
- Capital Reserves: represents a non-distributable reserve of cumulative net capital gains and losses recognised in the Statement of Comprehensive Income.

The only movements in these reserves during the year are disclosed in the Statement of Changes in Equity.

## 21. NET ASSET VALUE PER SHARE

Basic NAV per share is calculated by dividing the Company's net assets as shown in the statement of financial position that are attributable to the ordinary equity holders of the Company by the number of Ordinary Shares outstanding at the end of the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

| 31 October 2023 |             |             |             |           |           | Net Asset Value |
|-----------------|-------------|-------------|-------------|-----------|-----------|-----------------|
|                 | Shares in   | Assets      | Liabilities | Profit    | Pence per | £               |
| Ordinary Shares | 227,128,295 | 262,571,433 | 463,341     | 3,136,638 | 115.40    | 262,108,092     |

  

| 31 October 2022 (Restated) |             |             |             |            |           | Net Asset Value |
|----------------------------|-------------|-------------|-------------|------------|-----------|-----------------|
|                            | Shares in   | Assets      | Liabilities | Profit     | Pence per | £               |
| Ordinary Shares            | 210,000,000 | 268,429,516 | 15,272,536  | 48,426,937 | 120.55    | 253,156,980     |

## 22. DIVIDENDS

Dividend per Share is a measure to show the distributions made to Shareholders during the Period.

|                                                                    | Dividend per share | Total<br>£ |
|--------------------------------------------------------------------|--------------------|------------|
| For the 6 month period ended 31 October 2022 (paid: December 2022) | 1 pence            | 2,100,000  |
| For the 3 month period 31 January 2023 (paid: March 2023)          | 2 pence            | 4,542,566  |
| For the 3 month period ended 30 April 2023 (paid: June 2023)       | 2 pence            | 4,542,566  |
| For the 3 month period ended 31 July 2023 (paid: September 2023)   | 2 pence            | 4,542,566  |

The distributions paid during the Year were paid out of the capital reduction reserve and revenue reserve.

On 30 November 2023, the Company declared a distribution of 2 pence per Ordinary Share £4,542,566 in relation to the period 1 August 2023 to 31 October 2023 which was paid on or around 22 December 2023 to Shareholders on the register as at the close of business on 7 December 2023.

The table below sets out the final interim dividend, together with the interim dividends paid, in respect of the financial year, which is the basis on which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

|                                                           | 31 October 2023<br>£ | 31 October 2022<br>£ |
|-----------------------------------------------------------|----------------------|----------------------|
| Interim dividends paid 2023 - 6 pence (2022: 1 pence)     | 13,627,698           | 2,100,000            |
| Final interim dividend for 2023 - 2 pence (2022: 1 pence) | 4,542,566            | 2,100,000            |
|                                                           | <b>18,170,264</b>    | <b>4,200,000</b>     |

## 23. TRANSACTIONS WITH RELATED PARTIES

The Company and the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company does not have an ultimate controlling party.

Details of related parties are set out below:

### NON-EXECUTIVE DIRECTORS

Details of the fees paid to Directors in the year are set out in the Directors' Report.

Total Directors' fees of £225,750 (2022: £226,577) were incurred in respect of the year with none being outstanding and payable at the end of the year. Director and officer insurance for the year were £40,725 (2022: £44,917).

### SUBSIDIARIES

Included in note 11 are amounts receivable from HEIT Holdings Ltd and its subsidiaries. These amounts are interest free and repayable on demand.

On 15 December 2022, the Company announced the acquisition of the Wormald Green, Hawthorn Pit and Rye Common projects from Harmony Energy Limited and Ritchie Bland Energy No 2 Limited at fair value, in accordance with the Company's Related Party policy. The total consideration paid was c. £21.9 million (£21.5 million as consideration for the projects and £0.4 million to repay initial project costs incurred by the Developers on behalf of the Company). This was satisfied partly in cash and partly through the issue of 7 million new C Shares to the Developers. See note 10 for relevant details. The independent valuer provided a fair market opinion on all purchases at the time of acquisition and consideration paid was considered by the independent valuer to be within a fair market range.

On 9 March 2023, the Company sold its investments in HEIT PW Limited, HEIT PW 2 Limited, HEIT BD Limited, HEIT FM Limited, HEIT RH Limited, HEIT LR Limited, and HEIT BF Limited to its subsidiary HEIT Holdings Ltd for a total consideration of £91,105,212, which HEIT Holdings Ltd satisfied by issuing and allotting 91,105,212 Ordinary Shares of £1 each to the Company.

On 4 May 2023, the Company sold two further investments in HEIT HP Limited and HEIT WG Limited to its subsidiary HEIT Holdings Ltd for a total consideration of £8,893,079, which HEIT Holdings Ltd satisfied by issuing and allotting 8,893,079 Ordinary Shares of £1 each to the Company.

As described in the going concern note in note 2, the Company was a guarantor to its wholly owned subsidiary, HEIT Holdings Ltd in respect of the £110 million debt facility and the £20 million RCF. The Company also provides parent company guarantees to subsidiaries in relation to certain construction and/or battery supply contracts. As at 31 October 2023, total committed funding to subsidiaries was £55.2 million.

### INVESTMENT ADVISER

The Investment Adviser, Harmony Energy Advisors Limited is entitled to advisory fees under the terms of an investment advisory agreement dated 14 October 2021. The Company shall pay to the Investment Adviser an annual fee (exclusive of value added tax, which shall be added where applicable) payable monthly in arrears calculated at the rate of:

- One twelfth of 0.9% per calendar month of the lesser of the (i) NAV or (ii) Average Market Capitalisation of the Company up to the threshold of £250,000,000; and
- One twelfth of 0.8% per calendar month of the lesser of the (i) NAV or (ii) Average Market Capitalisation of the Company in excess of £250,000,000

An advisory fee of £2,163,222 (2022: £1,848,845) was incurred during the year and £144,121 (2022: £220,351) remained payable as at 31 October 2023.

Harmony Energy Limited is the parent of the Investment Adviser and therefore an entity with significant control over the Investment Adviser. Harmony Energy Limited is also a significant shareholder of the Company. See

transactions with subsidiaries for further details.

#### **OTHER RELATED PARTIES**

James Ritchie-Bland is a director of Harmony Energy Limited as well as an indirect shareholder of Harmony Energy Limited through Ritchie-Bland Energy (Number 1) Limited. He is also a director of the Investment Adviser and a shareholder in the Company.

Ritchie-Bland Energy (Number 2) Limited, of which James Ritchie-Bland is also a director and an indirect shareholder (through Renewable Environmental Investments Limited) is party to a joint venture agreement with Harmony Energy Limited in regard to the three projects purchased by the Company during the year as disclosed in note 10.

#### **24. CAPITAL COMMITMENTS**

As described in the going concern note in note 2, the Company was a guarantor to its wholly owned subsidiary, HEIT Holdings Ltd in respect of the £110 million debt facility and the £20 million RCF.

The Company also provides parent company guarantees to subsidiaries in relation to certain construction and/or battery supply contracts. These guarantees are expected to be in place until the end of June 2024. As at 31 October 2023, total committed funding to subsidiaries was £55.2 million.

Other than as reported above, the Company had no contingencies and no significant capital commitments at the reporting date.

#### **25. POST BALANCE SHEET EVENTS**

On 30 November 2023, the Company declared a distribution of 2 pence per Ordinary Share £4,542,566 in relation to the period 1 August 2023 to 31 October 2023 which was paid on or around 22 December 2023 to Shareholders on the register as at the close of business on 7 December 2023.

On 21 February 2024, the Company successfully negotiated an amendment and restatement of its debt facilities of £130 million with NatWest (together with Rabobank).

There were no other events after the reporting date which require disclosure.

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