octopus investments

A brighter way

Renewable Energy Income Partnership LP

Manager's Report for the period
01 January to 31 March 2018

For recipients use only, private and confidential

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Manager's Report for period
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Partnership information

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Partnership objective

Renewable Energy Income Partnership LP seeks to deliver an annualised gross return of 6.35%[1] over its term through the distribution of proceeds derived from the sale of Renewable Obligation Certificates (ROCs) and electricity generated by a portfolio of 26 solar photovoltaic plants located in the United Kingdom.

The portfolio was acquired by the Partnership on 5 May 2017 and the term of the Partnership continues until the earlier of 31 December 2046 and the decommissioning of the last operational asset.

Partnership financial highlights

Table 1: Summary of Partnership financial highlights at 31 March 2018

Commitments

	Period end 31 March 2018	Period end 31 December 2017	At portfolio acquisition 5 May 2017
Drawn commitments	£273,935,626	£273,935,626	£273,935,626
Cumulative drawn commitments	£273,935,626	£273,935,626	£273,935,626
Cumulative drawn commitments (%)	100%	100%	100%
Undrawn commitments	£0	£0	£0

Distributions (gross of withholding tax)

	Period end 31 March 2018	Period end 31 December 2017	At portfolio acquisition 5 May 2017
Period distribution to LP	£1,405,945	£5,065,182	£0
Cumulative distributions to LP	£22,330,722	£20,924,777	£0
Period distribution to GP	£153,018	£329,994	£0
Cumulative distributions to GP	£1,040,696	£887,678	£0

Partnership valuation

	Period end 31 March 2018	Period end 31 December 2017	At portfolio acquisition 5 May 2017
Valuation gross of period distributions	£264,630,790	£256,562,919	£273,536,085
Valuation net of period distributions	£263,071,827	£251,167,743	£273,536,085

Ratios[2]

	Period end 31 March 2018	Period end 31 December 2017	At portfolio acquisition 5 May 2017
Distribution to Paid-in capital (DPI)	8.20%	7.6%	0%
Residual value to Paid-in Ratio (RVPI)	96.03%	91.7%	99.9%
Total Value to Paid-in Ratio (TVPI)	104.20%	99.3%	99.9%

1 Gross return before General Partner share and Partnership expenses

2 DPI = cumulative distributions to LP/cumulative drawn commitments; RVPI = valuation net of period distributions/cumulative drawn commitments; TVPI = (cumulative distributions to LP + valuation net of period distributions)/cumulative drawn commitments

Portfolio summary

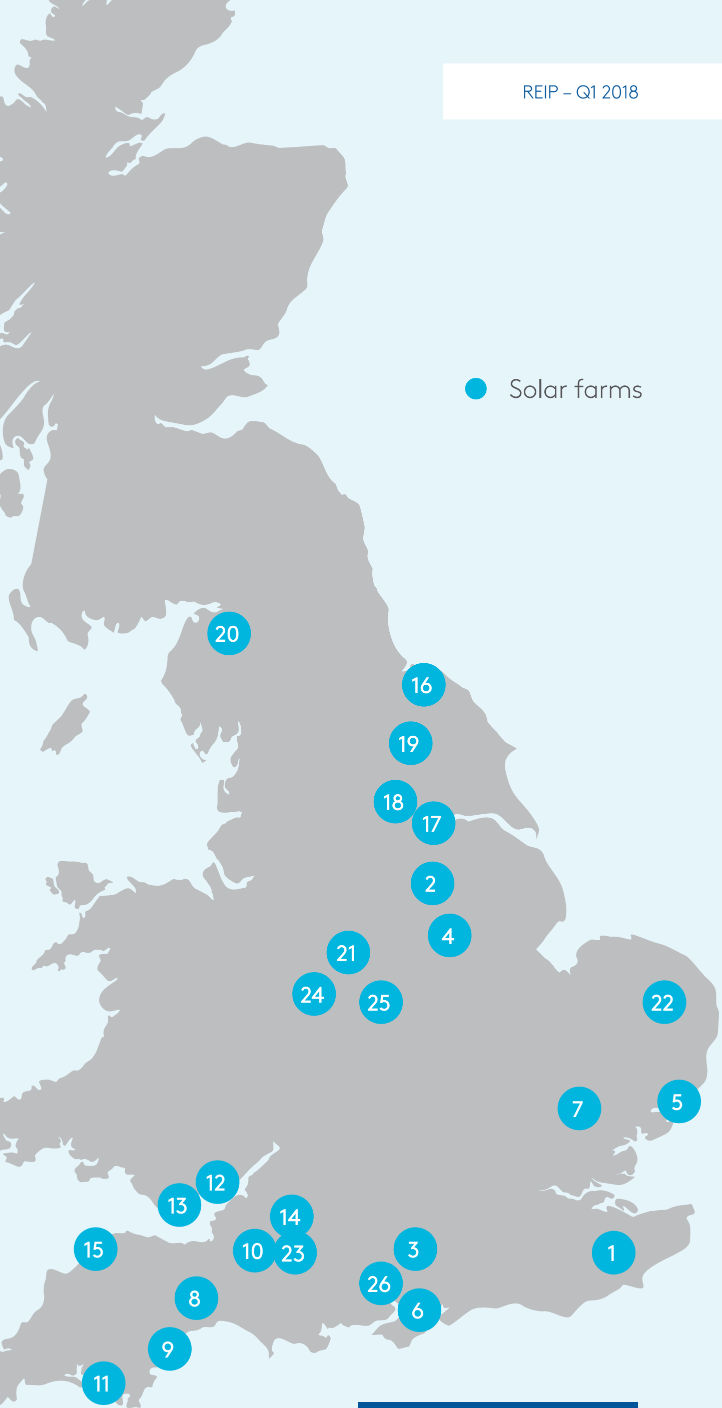


Table 2: Portfolio summary by site

No.	Site	Plant Capacity (MWp)	March 2018 valuation net of distributions (£m)	Proportion of portfolio by capacity (%)
1	**Sycamore**	19.0	27.3	9.4%
2	**Little Morton**	14.3	17.9	7.1%
3	**Bishop's Sutton**	12.0	16.2	6.0%
4	**Lodge Farm**	12.0	15.4	6.0%
5	**Stratton Hall**	11.8	15.3	5.8%
6	**Hill Farm**	10.8	14.7	5.4%
7	**The Hydes**	10.7	13.0	5.3%
8	**Till house**	10.5	13.1	5.2%
9	**Rydon Farm**	9.6	12.3	4.8%
10	**Somerton Door**	8.7	11.2	4.3%
11	**North Wayton**	8.4	11.7	4.2%
12	**Sutton Mawr**	7.5	10.2	3.7%
13	**West Hall**	5.5	6.9	2.7%
14	**Cloford Common Farm**	5.0	6.3	2.5%
15	**Walland Farm**	5.0	6.5	2.5%
16	**Guisborough**	5.0	6.2	2.5%
17	**Pollington Airfield**	5.0	6.3	2.5%
18	**Carlisle Estate**	5.0	6.4	2.5%
19	**Peter Hill**	5.0	6.7	2.5%
20	**Ash Row Farm**	5.0	6.2	2.5%
21	**Holtwood**	5.0	6.2	2.5%
22	**Brickkiln Lane**	5.0	6.2	2.5%
23	**Manor Farm**	4.9	6.5	2.4%
24	**Lawn Lane**	4.3	5.3	2.1%
25	**Ratcliffe Farm**	3.5	4.1	1.7%
26	**Mopley Farm**	3.0	4.3	1.5%
Portfolio total		**201.6**	**262.7**	**100**
Net assets on holding companies			**0.4**	
Partnership valuation			**263.1**	

Solar farms

26

Total capacity

201.6 MWp

Electricity generated

Over reporting period

30.0 GWh

Partnership Valuation

Net of distributions, including cash in holding companies

£263.1m

1.0 Manager's statement

1.1 Overview of performance

Good underlying asset performance, higher than expected availability and strong electricity prices were offset by disappointing weather over the period. Portfolio proceeds of £1.4m exceeded the forecast of £1m, largely due to continued robust cash management. Market activity continues to drive up the value of the asset class and this has been reflected in the valuation, which has increased 4.7% from £251.2m to £263.1m

Cold weather in the period contributed to an average wholesale electricity price of £52.71/MWh which is an increase of 9.9% on the same period last year and marginally above the previous forecast of £52.63/MWh. Longer term forecasts increased on the back of rising gas and oil price forecasts.

Market activity continues to show strong pricing of the asset class with recent transactions at £1.45-£1.50m/MWp. This portfolio was acquired by the partnership for £1.35m/MWp. Following a review of market information, the Octopus Valuations Committee lowered the discount rate from 6.35% to 6.25% adding £2.3m to the valuation. Overall the valuation has increased by £11.9m, net of distributions, on the back of uplifts in inflation, electricity and ROC price forecasts.

Though some sites had their performance impacted by snow, the bulk of the portfolio exceeded performance and availability expectations in the period. Unfortunately, this was not enough to offset poor irradiance levels which were 16.1% below budget. Overall, output in the period was 13.8% below budget.

Debtor management continues to run smoothly with average ROC receivable days down to 90 days which is well below the 120 days assumed in the investment case. Notwithstanding this, Mazars have now paid £333k to the Partnership as settlement for the error that resulted in the investment case model capping the ROC receivables at 90 days instead of 120 days.

The Partnership further benefitted from an ex-gratia payment of £163k from the General Partner that was deducted from their distribution this period.

1.2 Health and safety

There have been no health and safety incidents reported over the period.

1.3 Conflicts of interest

The Manager is paid a fee proportionate to the Partnership valuation but is also responsible for performing the valuation. The valuation methodology is documented in the Limited Partnership Agreement (LPA) Valuation Policy and has been applied. As outlined in section 4.2, the discount rate used to value the future cash flows has been lowered from 6.35% to 6.25%. The change in the discount rate is a result of a review of recent transactions in the solar market which have demonstrated increasing prices over the last 12 months. Furthermore, the information published by comparable listed solar funds also shows a consistent reduction of discount rates. The methodology change has resulted in an uplift of the valuation for this period by £2.3m. This change was approved by the Octopus Investments Valuation Committee, which is independent from the OEAM team.

1.4 Octopus assets under management

Octopus Investments is a London-based asset management company with total assets under management of approximately £7.5bn (as of 31 December 2017) invested across energy, healthcare real estate, property lending, venture capital and small-to-mid-sized companies.

The OEI team has built and manages approximately 2GW or £2.6bn (as of 31 December 2017) of energy assets across multiple technologies (including solar PV, onshore wind, biomass, landfill gas anaerobic digestion and reserve power) and jurisdictions (UK, France and Italy).

2.0 Market

Electricity prices outperform for the year as gas prices strengthen in the face of a cold weather front across Europe. The long-term outlook has risen incrementally following a strengthening of underlying commodity and carbon price forecasts.

2.1 Electricity prices

UK wholesale electricity market prices averaged £52.71/MWh during the period 01 January to 31 March 2018. This is an increase (+9.9%) compared to the same period last year and is reflective of the cold winter across Europe which has put pressure on gas and power prices. The quarterly price of £52.71/MWh outperformed (+0.2%) the projection from the previous quarter of £52.63/MWh. The marginal outperformance of the market price against the previous forecast is likely to be weather based, with cold weather causing increased levels of demand.

The long-term electricity price projection is made up by actual futures prices to 31 March 2020 and from then on, a 50-50 blend of the forecasts provided by Poyry and Baringa, two market leading consultants. The updated blended forecast for this period shows a +1.5% increase in net present value (NPV) terms against the blended forecast used for the pervious period, increasing the portfolio valuation by £2.2m (0.9%). The increased forecast reflects:

- Increase in the short-term futures prices driven by cold weather and higher short-term demand
- Increased gas price forecasts (+2.0%) reflect a tighter LNG market than the previous quarter due to delayed LNG plant construction in the US.
- Increased oil price forecasts (+2.4%) due to the OPEC production cut agreement.
- Increased carbon price forecasts (+9.7%) this reflects the cancelation of the European Union Allowances from the Market Stability Reserve from 2023 onwards.

Since the beginning of the period GBP has strengthened versus USD by 5.9% which is expected to feed through to a reduction in future electricity price forecasts.

The ROC buy-out price, as reflected in the investment case, of £45.58/ROC has increased in line with the Retail Price Index (RPI) to £47.22/ROC. The long-term blended ROC recycle and ROC fixed-prices after 31 March 2027 have increased this period. While Baringa maintain their assumption that the ROC recycle will remain at 10% of the ROC buyout price throughout the ROC period, Poyry forecast higher long-term recycle price projections at 10.4% due to a revised methodology reflecting the impact of different weather years.

2.2 Regulation and policy

The Domestic Gas and Electricity (Tariff Cap) Bill completed its Committee Stage in March and remains unamended, however there are still some differences of opinion between MPs and Ministers with regards to how the cap and pricing structure should be implemented and if there should be a statutory deadline for implementation. The next stages for the Bill are the Report Stage and Third Reading in the House of Commons, before progressing through to the House of Lords.

The Government's Green Taskforce launched an Accelerating Green Taskforce report during March. The aim of this Taskforce has been to ensure that London remains a leading world centre for green finance, and to help deliver the Clean Energy Growth Strategy. The report outlines a number of key recommendations, including the establishment of a Green Finance Institute by Government and the City of London to develop a joint strategy on green finance and the establishment of a Centre for Climate Analytics to improve climate risk management. The report also recommends driving supply and demand for green lending products, boosting investment into innovative clean technologies and the issuance of a sovereign green bond.

2.3 Activity

There is currently c.1GW of solar assets in the UK available for sale. Developers and investors, who have accumulated portfolios of assets over several years, now seek to realise profits and/or recycle capital into new markets. The largest transaction completed in the UK solar market is the acquisition of the Magnetar Solar portfolio by Rockfire Capital, a European investment manager, in January 2018. The sale consisted of 32 (344MW in capacity) of 2.0, 1.6 and 1.4 ROC accredited UK solar assets, with an indicative valuation of £1.5m/MW.

Foresight Solar Fund have also been active in the UK secondary solar market over the period, acquiring a 53MW, 1.4 ROC and FiT portfolio from Belltown Power. While no specific pricing information has been provided, the indicative asset valuation is around £1.45m/MW, once again, significantly higher than the transaction price of around £1.35m/MW at which this portfolio was acquired by the Partnership. The prices that are being seen in the market are increasing and, as discussed in section 1.6 and 4.2, the discount rate used to value this portfolio has been lowered accordingly. The OEI and OEAM teams constantly review the market for synergistic and/or earnings enhancing acquisition opportunities.

3.0 Financial performance

3.1 Partnership distributions

Outlined in Table 3 is an overview of the Partnership's portfolio proceeds, expenses and distributions for the reporting period.

Table 3: Summary of March 2018 distributions to Limited Partner and General Partner, as shown in March Distribution Notice

	Amount
Portfolio proceeds	£1,422,039
Cash at holding companies	£186,174
Partnership level expenses and retentions	£49,250
Cash available for distributions	£1,558,963
General Partner share	£153,019
Limited Partner share	£1,405,944

The General Partner share is calculated based on 0.5% per annum multiplied by the Partnership's £256.6m valuation at the end of the previous reporting period (gross of distributions), pro-rated by the 92 days in this reporting period. For this reporting period, the General Partner share was reduced by a £163k ex-gratia payment agreed between the Partners.

Partnership level expenses include £14k for administration services provided by Augentius (UK) Ltd and a residual cash buffer of £10k to cover minor expenses such as bank fees. Further to this, the OEAM team retained an additional £25k within the Partnership to provide additional contingency.

Limited Partner Share

£1.4m

General Partner Share

£0.2m

Partnership level expenses

and working capital retention

<£0.1m

3.2 Portfolio proceeds

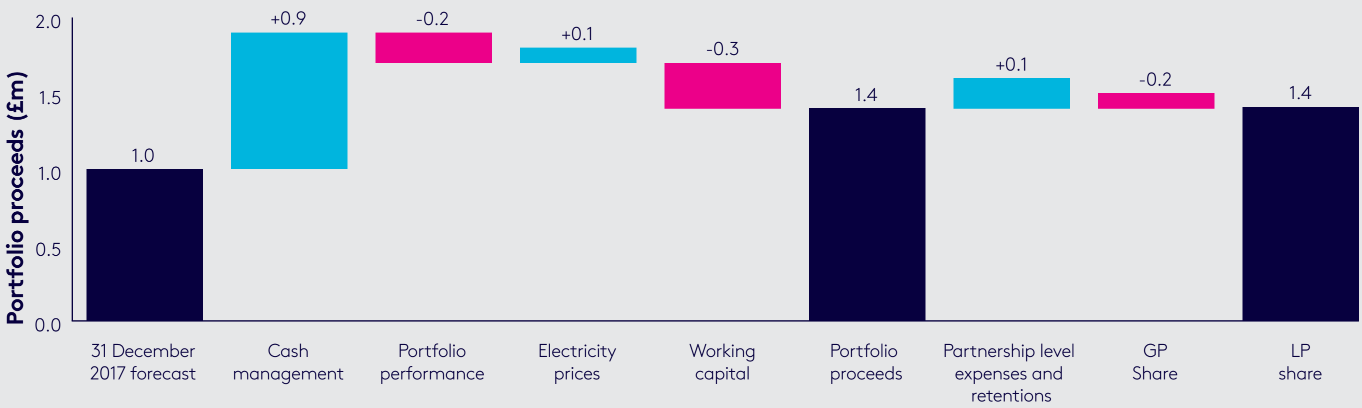
Aggregate portfolio proceeds received by the Partnership during the reporting period totalled £1.4m, exceeding the forecast at 31 December by £0.4m. Figure 1 shows the bridge between actual and forecasted portfolio proceeds, and the payment to the General Partner.

Portfolio proceeds

£0.4m or 60% above previous forecast

£1.4m

Figure 1: Portfolio proceeds from 31 December 2017 forecast to 31 March 2018 actual



Cash management

The OEAM team continue to focus on efficient revenue collection, resulting in an additional £0.3m revenue from ROC sales once again being collected earlier than forecasted, a summary of this is provided in section 6.3. In addition, due to cash management and credit controls, the portfolio had additional £0.4m of cash at the end of the period. Furthermore, the annual audit and accounting fee of £0.2m was previously forecasted to be paid in this period however this was not made and will be made during the next period. The net impact upon the portfolio proceeds for the reporting period was an uplift of £0.9m due to timing related aspects and cash management.

Impact on portfolio proceeds – cash management:

+£0.9m

Portfolio performance

Portfolio underperformance has resulted in proceeds £0.2m below expected. The portfolio generation for the months December to February was 1% below expectations, negatively impacting the proceeds by less than £0.1m. In addition, generation over the period September to November was 4.8% below budget, because ROCs are typically paid 3-4 months in arrears and as such this provided a shortfall of £0.2m in the portfolio proceeds over this reporting period. Further detail regarding asset performance over the period is provided in section 5.1.

Impact on portfolio proceeds – portfolio performance:

-£0.2m

Electricity prices

As outlined in section 2.1, the electricity prices during the reporting period were above the latest forecast, which resulted in revenues from sales of exported electricity being £0.1m above the previous forecast.

Working capital

The OEAM team withheld working capital within the assets of £0.3m, reducing the portfolio proceeds. The team expects to complete a schedule of FACs (Final Acceptance Certificates) as discussed in section 6.2, over the next reporting period and therefore may require cash to release any FAC retentions which are generally withheld until completion of any outstanding works. The working capital of £0.1m previously retained in the holding companies was also distributed at the end of this period as stronger revenue generation is expected over the early summer thereby lowering the working capital requirement.

Impact on portfolio proceeds – electricity prices:

+£0.1m

Impact on portfolio proceeds – working capital:

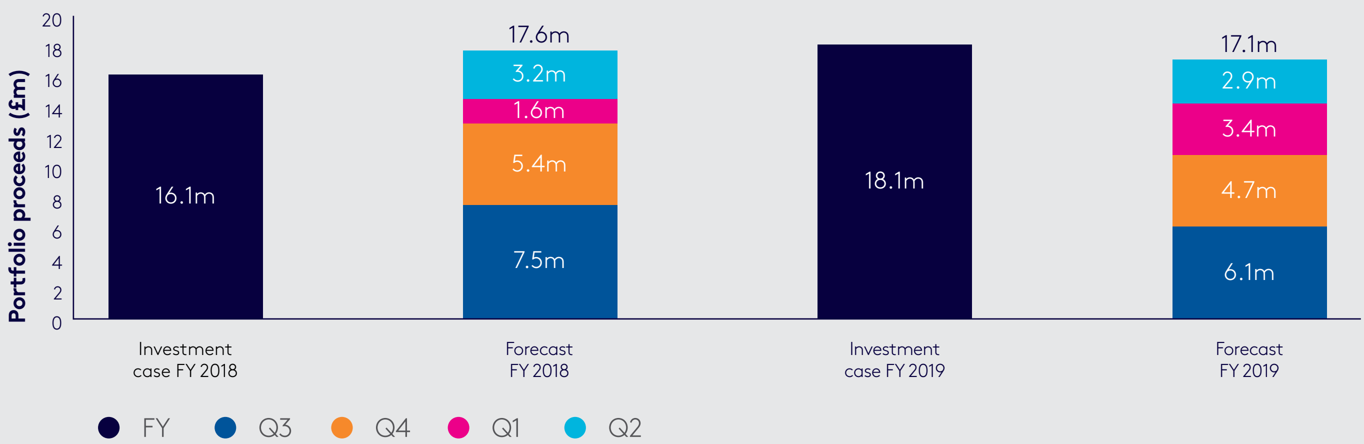
-£0.3m

3.3 Short-term performance outlook

The total portfolio proceeds for the financial year 2018 (ending on 30 June 2019) are expected to be £17.6m, c£1.5m above the investment case forecast, as shown in Figure 2. This is mainly driven by the higher than expected 2017 ROC recycle price, which had been accrued at £0/MWh but was announced by Ofgem at £4.9/MWh and paid in the previous reporting period, in addition the portfolio outperformance over the summer period generated more revenue from exported electricity than expected. Looking forward to the next period, the forecast has been increased to include the settlement of £0.3m between the Partnership and Mazars LLP following the modelling error identified after the transaction (further information is provided in section 7.1).

The portfolio proceeds in the financial year 2019 are expected to be lower than the investment case, primarily due to a lower ROC recycle price forecast for 2018. This revenue stream is typically paid out in the last quarter of 2018.

Figure 2: Forecast portfolio proceeds for financial years 2018 and 2019 against investment case



3.4 Long-term performance outlook

The long-term forecast distributions are shown in Figure 3, while the long-term distribution forecast is below the investment case the forward-looking performance has improved against the previous period, mainly due to an increase in the long-term electricity price forecast.

Prior reductions to the long-term electricity price forecasts resulted in a decrease in the expected gross internal rate of return (IRR) since investment case. Based on the actual portfolio proceeds to date and the updated forecast cash flows, the gross IRR of the Partnership as at the end of the reporting period is 6.14%, down from 6.35% at portfolio acquisition.

3.5 OEAM value-add activities

Figure 4 shows an analysis of potential returns, given the portfolio enhancements and assumption changes to date as well as then impact of assuming good practice, such as good cash management continues for the life of the asset since the transaction and the basis-point impact of each change. Firstly, the transaction related adjustments are shown, including the two errors which largely offset each other. The recovery of £333k of settlement funds from Mazars for the ROC modelling error. The gross IRR adjusted for transaction effects was 6.37%, up by 2bps.

Figure 4 then shows the value-add portfolio enhancement activities that OEAM have carried out to date applied over the life of the projects. Firstly, the team has continuously lowered receivables days, specifically for ROC buyout revenue, and receivables days outstanding in March 2018 was below 90 days on average for the first time. Shortening the ROC debtor days period assumption from 120 to 90 days across the holding period would cause a returns uplift of 4bps.

The OEAM team can use economies of scale and strategic partnerships to deliver market leading Power Purchase Agreement (PPA) terms. Replicating the terms of the latest two-year PPAs with Total Gas and Power, which achieved better pass-through rates than the investment case model's assumption and applying these rates over the 25-30-year project life would give an uplift of around 18 basis points to returns.

Additional value-add activities carried out by the OEAM team since the transaction include the reduction in the insurance premium which was reported on in the report for the period to September 2017 and has been applied over the project life, to reflect the falling solar equipment costs. The team expects to recover significant liquidated damages (LDs) from the construction contractors on a number of sites following historic underperformance, while the team is still in the process of claiming these, it is conservatively expected that these damages will amount to 7.5bps. Lastly, the 2017 availability over-performance of the portfolio, has generated a benefit of 4.4bps. This covers the team's innovative response to mitigate the lengthy grid outage over the summer at Hill Farm. These portfolio-enhancement activities carried out to date give a potential gross return of 6.76%, up by 40bps from the investment case, with the exception of the updated insurance premia, these have not been included to the valuation which currently shows a gross return of 6.14%.

Figure 3: Financial year portfolio proceeds investment case versus updated forecast

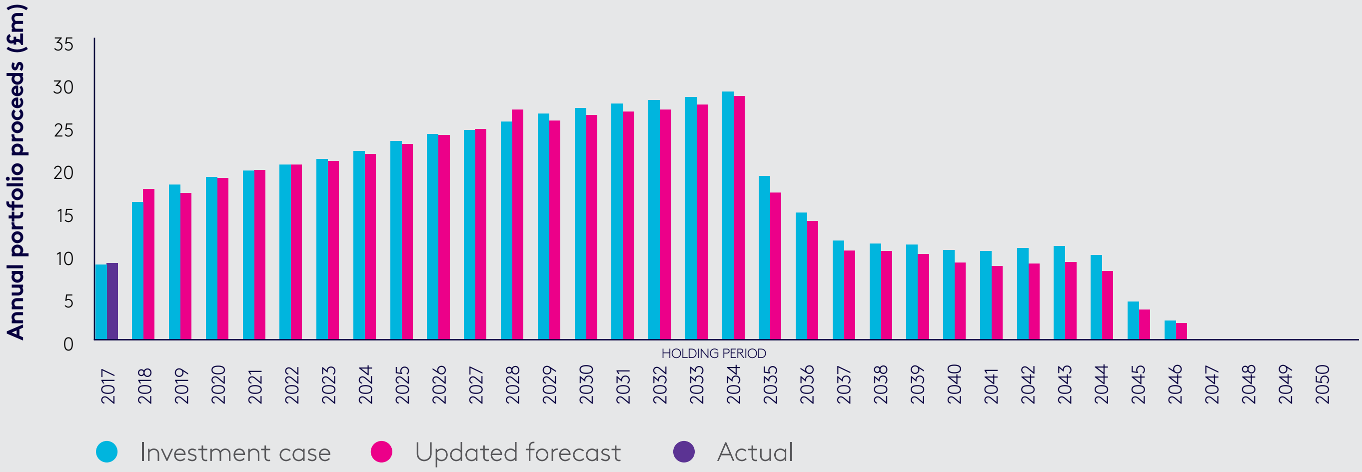
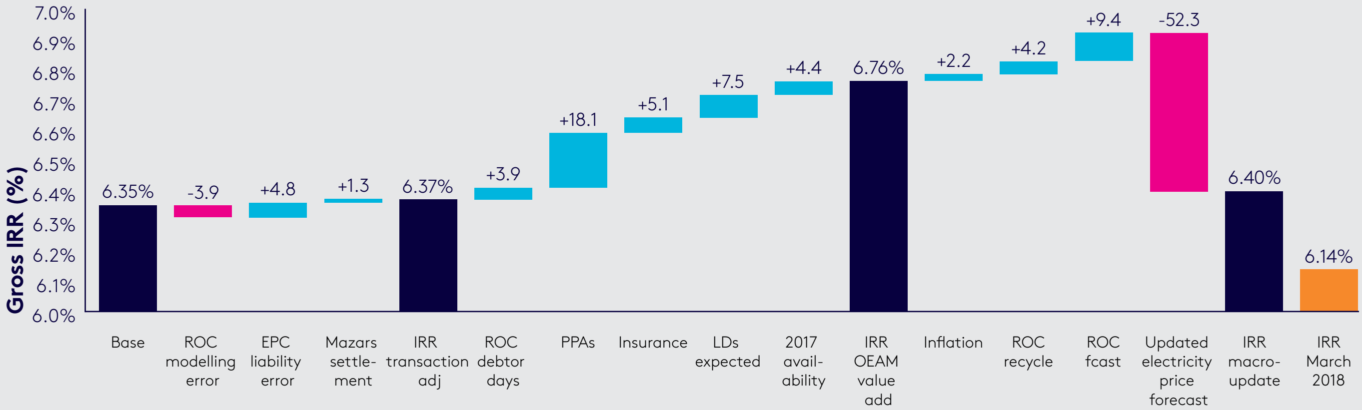


Figure 4: Bridge in gross IRR from investment case to potential gross IRR, given OEAM activities



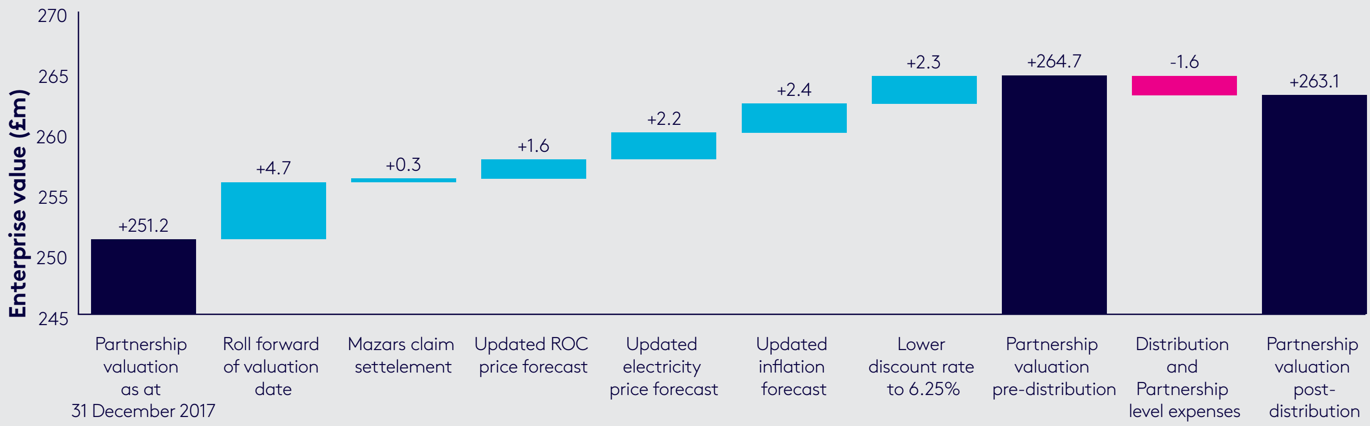
4.0 Valuation

4.1 Valuation update

Valuations have been performed for this reporting period as at 31 March 2018, in line with the valuation policy documented in the LPA.

The Partnership has shown an overall uplift in valuation of £13.4m to £264.7m, gross of distributions over the reporting period. Figure 5 bridges changes in the valuation over the reporting period.

Figure 5: Bridge in valuation from 31 December 2017 to 31 March 2018



Roll forward of valuation date

Rolling forward the valuation from the end of the previous reporting period to the end of this reporting period at a discount rate of 6.35% and updating the period management accounts has generated an uplift in the valuation of the portfolio of £4.7m.

Mazars claim settlement

After the completion of the transaction it was found that there was an error in the model workings which determined the purchase consideration. The error was in relation to the receivables period for ROC buyout revenue which was understated (90 days as opposed to the intended 120 days). This inflated the purchase price by c£1.0m. Prior to completion Mazars carried out a model integrity audit and this issue was not detected, as such OI pursued Mazars for recourse. On 21 March 2018 Mazars agreed to settle with REIP, the settlement amounting to £312k after legal fees. This was paid out to the Partnership in mid-April.

Impact on portfolio valuation – Roll forward of valuation date:

+£4.7m

Impact on portfolio EV – Mazars claim settlement:

+£0.3m

Updated ROC price forecast

This shows the blended ROC buyout and recycle forecast between Poyry and Baringa. The ROC recycle price forecast released by Poyry for Q1 increased from £7.6 per ROC to £10.0 per ROC for 2019, Baringa have held their forecast at 10% of the ROC buyout price. Poyry have estimated that the long-term ROC recycle price should be slightly above 10% of the ROC buyout price due to their modelling of weather patterns, this is discussed in section 2.1.

Updated electricity price forecast

The Q1 blended wholesale electricity price forecast for futures prices to 2020 and then a Poyry-Baringa blend showed and increase on the Q4 blended forecast in the previous report, increasing the valuation by £2.2m.. Further information around the underlying price forecasts is provided in Section 2.

Updated inflation forecast

The updated forecast for inflation CPI and RPI caused an increase in the portfolio valuation of £2.4m. The updated RPI forecast shows a rise from the previous curve in the short-medium term until 2022, which has a compounding effect through the long-term cash flows. The long-term assumption remains at 2.75%.

Lower discount rate to 6.25%

The Valuations Committee (VC) lowered the solar discount rate to 6.25% unlevered for the period valuation. The rationale behind this changing assumption is outlined in Section 4.2 below. The impact of lowering the discount rate is a £2.3m uplift to the valuation.

Distribution to Partners

Total proceeds from the assets to the holding company over the period were £1.6m, of this, £1.4m was paid to the Limited Partner and £0.2m to the General Partner.

Impact on portfolio EV – Updated ROC recycle price forecast:

+£1.6m

Impact on portfolio EV – Updated electricity price forecast:

+£2.2m

Impact on portfolio valuation – Updated inflation forecast:

+£2.4m

Impact on portfolio valuation – Lower discount rate to 6.25%:

+£2.3m

Impact on portfolio EV – Distribution to Partners:

-£1.6m

4.2 Methodology and assumptions

For the period to March 2018, the Valuations Committee changed the solar discount rate from 6.35% to 6.25%. Recent transactions of renewable energy assets have shown that prices have increased in the last 12 months, therefore implying that all else being equal, discount rates have fallen. In addition, the publicly available sources of discount rates show a reduction over 2017, with the key listed solar funds publishing discount rates in the region of 6.10-6.35%.

As with all other assumption and methodology changes, this has been approved by the Valuations Committee. The Valuations Committee commented that lowering the discount rate is compliant with the Valuation Policy in the LPA and that lowering the discount rate is consistent with the market view at this time. Table 3 shows the key portfolio assumptions.

Table 3: Summary of key valuation assumptions

Assumption	Value
Discount rate	6.25%
Inflation RPI 2018-2022	3.40%, 3.15%, 3.00%, 3.10%, 2.93%
Inflation RPI 2022+	2.75%
Wholesale electricity prices	Blended Poyry/Baringa/futures curve
ROC buyout and recycle price	Poyry/Baringa Q1 forecast
PPA discount	As per contract or 4%; except 0% for ROCs after 2027
Asset life	25 years unless planning, lease life and technical sign-off are secured for 30 years
Plant availability	Site specific as per investment case
Performance ratio	Site specific as per investment case
Degradation	0.4% per annum
Contract management cost	As per contractual agreement
O&M contract cost	As per contractual agreement
Corporation tax	2017-2019: 19% 2020 onwards: 17%

5.0 Technical performance

5.1 Performance summary

The portfolio showed good efficiency over the period, with PR above investment case (+0.7%), however this was offset by lower than expected irradiation (-16.1%) over the period. The total generation of 30GWh over the period was 13.8% below expected.

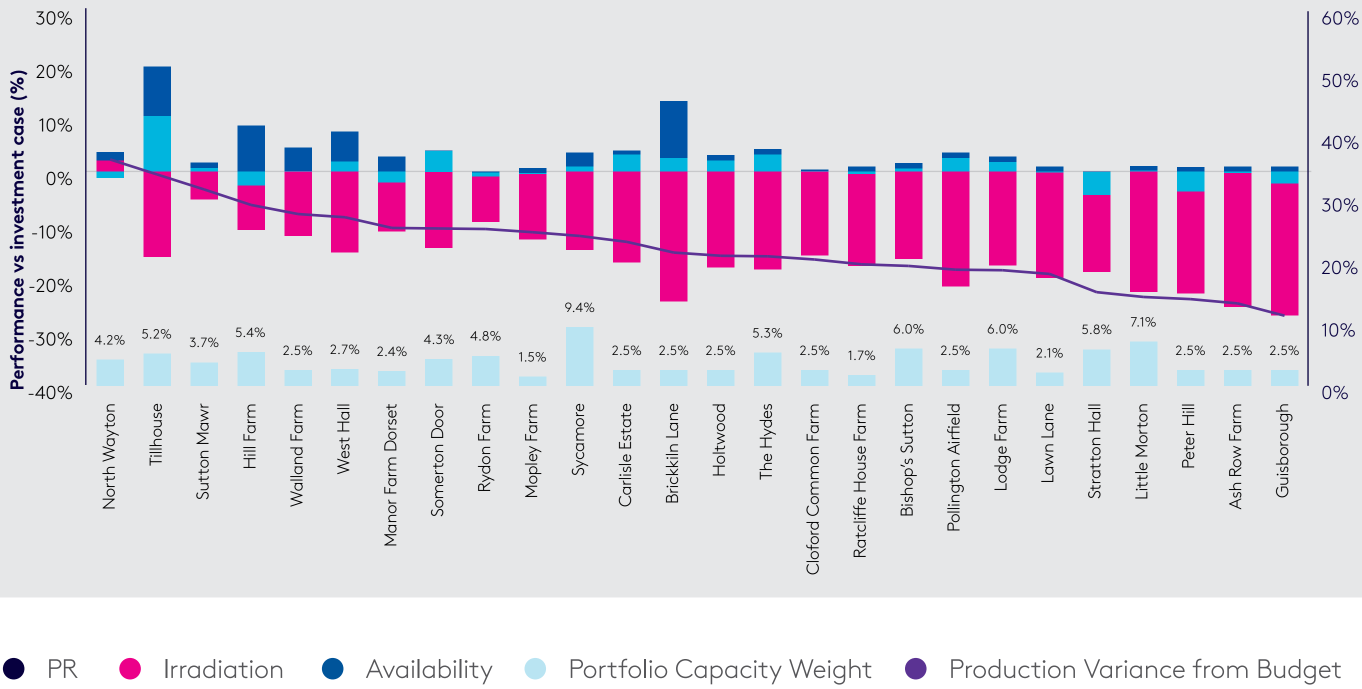
The technical efficiency and performance of the assets has been good with a PR for the period 0.7% above the investment case. The external availability across the portfolio has also been better than expected, with all but 3 sites beating their availability targets. However, overall generation was below budget by 13.8% due to snowy and stormy weather across the UK over the period impacting irradation. Since the beginning of the financial year 2018, the portfolio has underperformed by 5.3% with respect to generation, although the team aniticpates that performance will improve as the spring and summer periods approach.

Performance ratio (PR)

PR is a key performance indicator of a solar site. It shows the ratio of the site's actual output at the meter relative to the theoretical production of the panels. This metric is best measured over long periods (years) to allow for variances in ambient temperature.

Figure 6 shows the site-by-site and portfolio average performance against the investment case as a percentage. The performance is broken down by three underlying components: PR, availability and irradiation. While irradiation was disappointing over this reporting period, PR was strong on 11 sites and above the investment case by 0.7% on average and external availability was 2.1% over the investment assumption.

Figure 6: Portfolio performance over the quarter by asset broken down to PR, irradiation and availability



FAC

Reaching FAC represents a key milestone in the life of a solar asset and takes place when all outstanding works relating to the construction of the site have been completed and the performance of the plant verified. At FAC the EPC contractor is discharged from its contractual obligations and the operation of the plant is handed over to the O&M contractor. Typically, FAC is achieved three years after the commissioning date of the site. The pre-FAC PR of the plant is partially underwritten by the EPC contractor, with liquidated damages payable at FAC if a minimum PR level has not been achieved.

5.2 Site focus

The key factors impacting PR and availability both positively and negatively are described below.

Till House PR: +10.4% (pre-FAC)
The team has seen excellent efficiency at Till House following the pre-FAC works that have been carried out by the EPC contractor Grupotec. This is a result of the replacement of cabling and transformers under warranty that had historically shown faults.

Brickkiln Lane availability: +10.6% (pre-FAC)
The technical due diligence carried out prior to the transaction recommended an impairment to the availability assumption to 90% for the project's life. This was due to an Active Network Management (ANM) scheme in place at Brickkiln whereby the network operator can remotely wind down the site's output to meet demand. This has not been used yet by the DNO, with gross availability at 97.9% over the period and 98.5% over the financial year to date.

Stratton Hall PR: -4.4% (post-FAC)
Over this reporting period the site at Stratton Hall was affected adversely by the poor weather conditions and snowfall on the panels at the beginning of the month. The team have estimated around £1.3k of financial losses associated with the snow at Stratton Hall and do not consider this to be recoverable through any contractual provisions. At the end of March, there was an additional event when the site tripped due to a fault on an external line causing around £1k of financial losses, the team are currently investigating this incident with the Distributed Network Operator (DNO). The team are also reviewing a schedule of grid connection improvements, particularly for sites in remote areas which may help to mitigate future outages.

Peter Hill PR: -3.7% (pre-FAC)
Over this reporting period the site at Peter Hill was affected adversely by the poor weather conditions and snowfall on the panels at the beginning of the month. The team have estimated around £0.5k of financial losses associated with the snow at Peter Hill and do not consider this to be recoverable through any contractual provisions. In addition to the snowfall, the inverter manufacturer Power Electronics attended the site to replace an inverter fan which had become faulty. This maintenance caused some downtime and financial losses of around £0.5k which may be recoverable under the EPC contract through the liquidated damages clauses.

Hill Farm PR: -2.6% (pre-FAC)
Over this reporting period the site at Hill Farm was affected adversely by the poor weather conditions and snowfall on the panels at the beginning of the month. The team have estimated around £0.5k of financial losses associated with the snow at Hill Farm and do not consider this to be recoverable through any contractual provisions. Furthermore, there was an additional outage due to a site disconnection to carry out the annual higher voltage equipment maintenance. The plant was only disconnected for a short period and incurred downtime costs of around £0.5k.

It is worth note that in the previous report for the period to December 2017, the possibility of an additional outage at the site at Hill Farm during 2018 was raised. The team received a communication from Scottish and Southern Electric (SSE), the network operator, in late 2017 that there would be additional maintenance on the interconnector between the Isle of Wight and the mainland, requiring a 4-week zero-export constraint spanning April and May 2018. Early in 2018, the team was informed that this maintenance would be deferred until spring 2019. Over the course of this summer, the OEAM team will evaluate proposals to mitigate this, most likely replicating the deal struck in 2017 between an OEAM-led Isle of Wight solar consortium to purchase capacity from a CCGT unit operated by RWE, if it is commercially viable.

6.0 Portfolio update

6.1 Health, safety & environmental

Over the reporting period, no health safety and environmental incidents were reported.

6.2 FAC progress

At the time of acquisition, four assets in the portfolio with an aggregate capacity of 40.6MWp (representing 20% of the portfolio) had been awarded FAC. During this reporting period FAC was achieved on 3 sites; Walland Farm, North Wayton and The Hydes. Performance at these sites over the FAC period was as expected and subsequently no liquidated damages were received from the EPC contractors.

While the team is progressing through the FAC schedule as a priority, there have been some delays. These delays are a consequence of the OEAM team implementing more stringent tests and inspections. Increasing the robustness of the FAC process gives a greater chance of detecting faults with the site and allows the OEAM team to demand that the EPC contractors rectify any issues at their own cost before they are released from their contractual obligations. The team is currently in the latter stages of negotiating liquidated damages in excess of £0.9m.

Liquidated damages

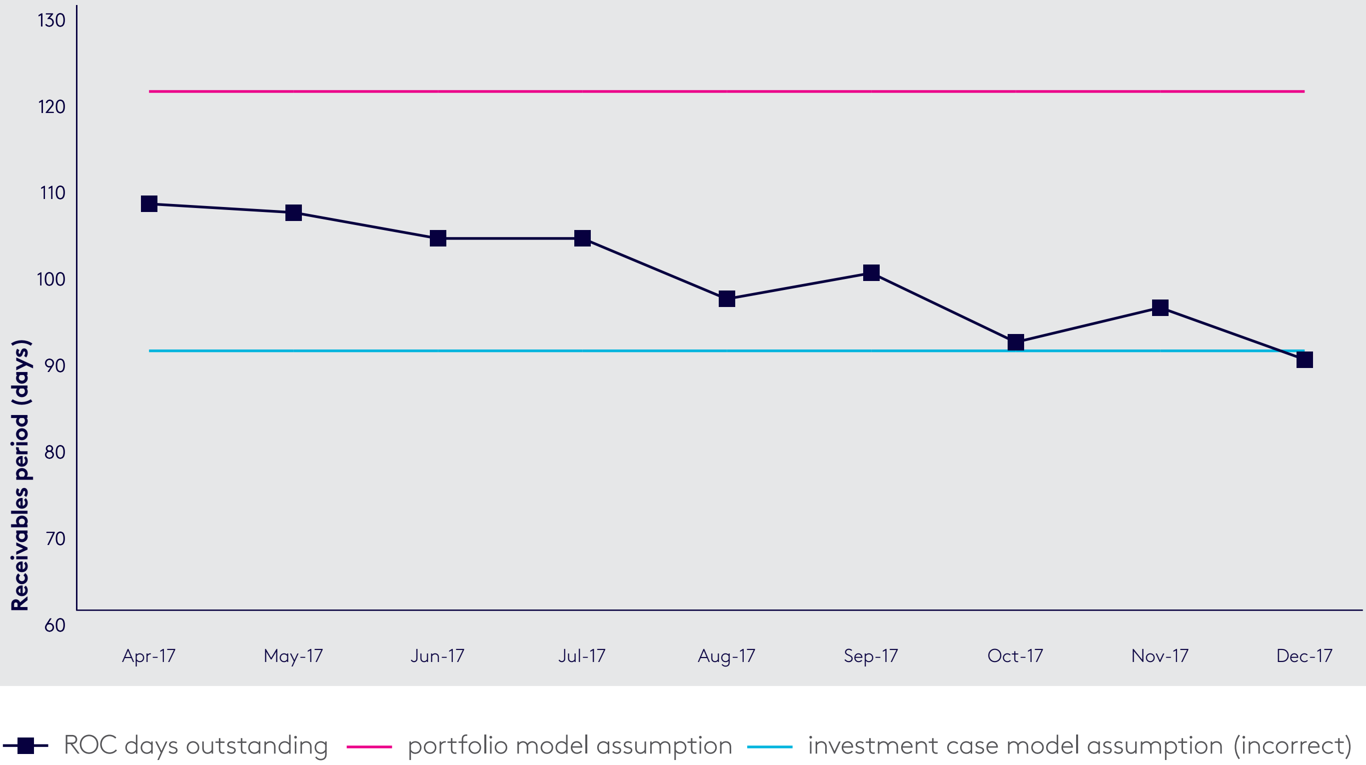
In case the PR guaranteed within the EPC contract is not achieved in the FAC tests, liquidated damages become payable by the EPC contractor to compensate for past and expected future lost revenue.

6.3 Debtor management

The portfolio model assumes 30 receivables days for exported electricity and 120 days for ROC buyout revenues. The ROC buyout period is longer than exported electricity as the RO Certificates generated by the solar assets must be ratified by Ofgem, a process which typically takes around 3 months. Following this the off-takers whom purchase the RO Certificates need to be invoiced and the payment period stipulated in the PPAs is generally 10-15 days. During the post-completion process, it was identified that there was an error in the investment case model which caused the ROC receivables days to be 90 days, as opposed to the intended 120 days. This was not identified during the model integrity audit (see Section 7) and correcting the valuation to drop by around £1m, because of moving all ROC payments back by 30 days, this was reported in June 2017.

Since the transaction the team have focused heavily on debtor management and minimising the number of receivables days outstanding. This has primarily involved fostering strong relationships and lines of communication with the off-takers, driving the performance of our outsourced counterparts and implementing processes to monitor and track outstanding debtors closely. The ROC receivables days outstanding have been decreasing since the date of the transaction, however the month of March 2018 was the first month where the average debtor days for the portfolio assets was below 90 days. Figure 7 shows the actual ROC buyout debtor days from generation to payment, against the portfolio assumption of 120 days and the incorrect investment case model assumption of 90 days. If this credit control continues over the holding period, an uplift of around 4 basis points to returns would be delivered.

Figure 7: ROC receivables days outstanding tracker April 2017 to December 2017 (paid in March)



7.0 Post completion items

7.1 Mazars update

As discussed in previous reports, in the investment case valuation, a 120-day payment period was assumed for collection of ROC revenues. Due to a model integrity issue the model capped the payment period at 90 days (one period in the model), i.e. 30 days earlier than intended based on the 120 days assumption. If the 120 days had been reflected correctly in the model calculations, the valuation and purchase consideration would have been £1m lower, and subsequently the team have been in discussions with Mazars, who carried out a model integrity audit, regarding settlement and recourse.

In January 2018 the OEI management team met with Mazars General Counsel and a member of Mazars' executive committee to discuss a potential claim for negligence and breach of duty relating to model auditor services provided by Mazars. Following settlement discussions between Mazars General Counsel and the General Partner, during March, the team received an offer of settlement of £333k. The settlement offer was accepted and Mazars were released of any further liability. The funds were received by the Partnership in full on 18 April 2018 and will be paid out in the June 2018 portfolio distribution, less the legal cost incurred of £21k.

7.2 Ex-gratia payment

In the distribution at the end of this period, an ex-gratia payment of £163k was made by the General Partner to the Limited Partner, by way of reducing the General Partner share.

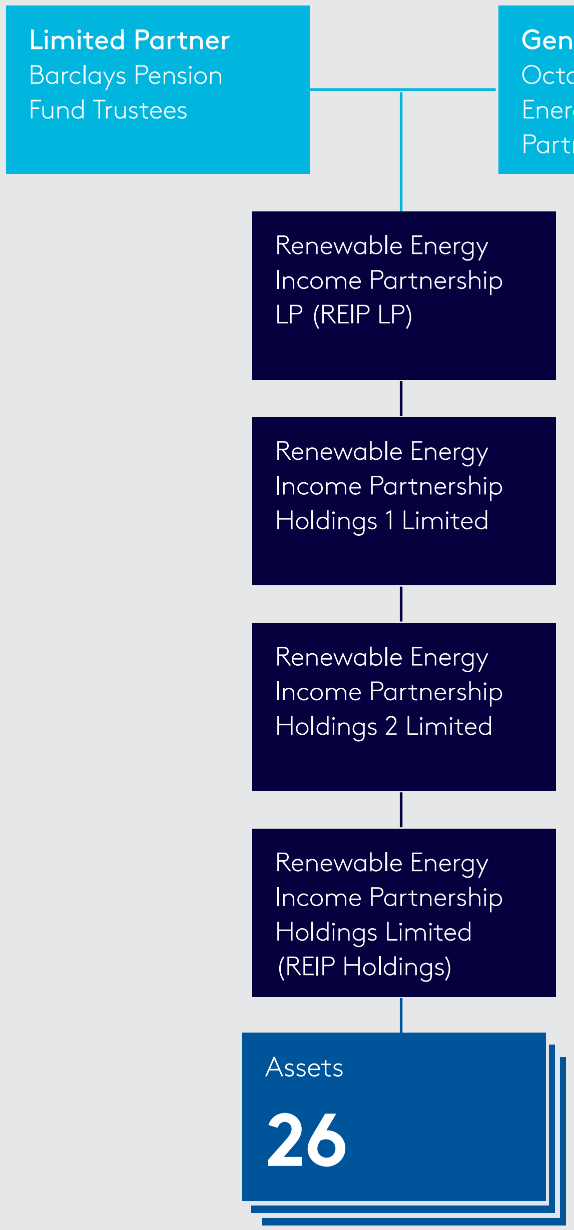
7.3 Post-completion restructuring

The post-completion restructuring of the Partnership is still underway and has been completed in part. The deferred shares originally in place have all been converted into ordinary shares. The next stage of the restructuring is that Elios Energy Limited (EEL), the entity which previously owned the deferred shares is to be liquidated. The liquidation process has been initiated and is expected to be completed during the second half of 2018.

EEL's corporation tax return to 30 June 2017 has identified a tax lability of £26k which will have to be settled prior to liquidation of the company. At acquisition, tax estimates were calculated based on an acquisition date of 27 April 2018. However, as the transaction only completed on 5 May 2017 the tax estimate was understated. Under the purchase agreement the vendor provided a warranty for any historic tax liabilities in EEL. The funds were transferred from EEL to the Partnership after the tax year-end and the liability between the Partnership and HMRC has been settled.

The final structure, once EEL has been liquidated, is shown in Figure 8.

Figure 8: Targeted Partnership structure



Definitions

ALE	Asset Life Extension
DNO	Distributed Network Operator
ESG	Environmental and Social Governance
EPC	Engineering Procurement and Construction
EV	Enterprise Value
EY	Ernst & Young LLP
FAC	Final Acceptance Certificate
GP	General Partner
HSE	Health, Safety and Environment
LP	Limited Partner
LRSL	Lightsource Renewable Services Ltd
LPA	Limited Partnership Deed dated 4 May 2017
NPV	Net Present Value
O&M	Operations and Maintenance
OEI	Octopus Energy Investments
OEAM	Octopus Energy Asset Management
Partnership	Renewable Energy Income Partnership LP
PPA	Power Purchase Agreement
PR	Performance Ratio
REIP	Renewable Energy Income Partnership LP
ROC	Renewable Obligation Certificate
RPI	Retail Price Index
SPV	Special Purpose Vehicle
WHT	Withholding Tax

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